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THE EFFECTS OF IMPLEMENTING VALUE ADDED TAX ON LIVE MUSIC IN FINLAND

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ABSTRACT

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This thesis concerns the value added tax (VAT) treatment of live music in Finland. The principal objective of this thesis is to analyze the VAT exemption of live music in the terms of the current EU VAT Directive (2006/112/EC).

The thesis starts with a short introduction of the music business and continues to present the aim of the thesis, the subjects covered and the strength and weaknesses of the study.

The next section introduces the European VAT system, its nature and its inherent characteristics, including explanations and analysis behind the terminology used.

The VAT deduction right is studied closely as well as the problems arising from having VAT exemptions in a VAT system, with the purpose of setting the proper context for the analysis of this thesis.

This is followed by a study of the Finnish VAT law implemented on live music and how the VAT exemption in live music works in theory and practice.

In the final sections the thesis will outline a study of the research question using qualitative and quantitative methods of research. It will look at the research question from different perspectives and include a study of the affects of VAT implementation on live music for the different parts involved in the supply chain of live music.

On the basis on the research the final conclusion will state that the implementation of 10 percent value added tax could be very beneficial for the live music business and also for the national economy. Recommendations for possible further research are also stated.

Key words
Live Music, Value added tax, VAT, VAT Exemption

TIIVISTELMÄ OPINNÄYTETYÖSTÄ

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Tämä tutkielma käsittelee elävän musiikin arvonlisäverokohtelua Suomessa. Tutkielmassa analysoidaan elävän musiikin nykyistä arvonlisäverolakia ja sen toimivuutta nykytilanteessa. Tutkielman päätavoite on analysoida arvonlisäveron implementaation mahdollisia vaikutuksia elävän musiikin toimijoihin Suomessa.

Tutkielman alussa esitellään lyhyesti Suomen musiikkialan tilannetta. Tämän jälkeen esitellään tutkielman tavoitteet sekä tutkimusmenetelmät vahvuuksineen ja heikkouksineen.

Seuraavassa osassa esitellään EU:n arvonlisäverojärjestelmän luonne ja ominaisuudet. Tutkielmassa analysoidaan ja selitetään arvonlisäverolain terminologiaa sekä arvonlisäveron vähennysoikeuksien ja arvonlisäverottomuuden kysymystä. Tämä antaa teoreettisen pohjan tämän tutkielman tuloksiin ja pohdintaan.

Työssä käydään läpi EU:n arvonlisäverodirektiiviä ja Suomen arvonlisäverolakia liittyen elävän musiikin toimijoihin. Työ tarkastelee tutkimuskysymystä eri näkökulmista ja sisältää laskelmia arvonlisäveron implementaation vaikutuksista elävän musiikin eri toimijoihin.

Loppupäätelmässä todetaan, että 10 prosentin arvonlisäveron implementaatio voisi virkistää koko elävän musiikin toimialaa ja sitä kautta myös vaikuttaa positiivisesti kansantalouteen. Tutkimus antaa myös suosituksia jatkotutkimuksia varten.

Asiasanat
Alv, Arvonlisävero, Arvonlisäveroton, Elävä musiikki,

GLOSSARY

Agent: a person or a company responsible for selling/buying or booking shows for an artist or a band/venue. For his services, the agent takes a cut of the performer's salary, usually 15-20%.

Artist: A singer, musician or other performer, who is marketed solo. In most cases performances by an artist include supporting musicians or performers as well as a technical crew.

Audio system: see PA system

Band: two or more musicians (or in some cases other performers) performing together

DJ: A person playing music from a recording in front of an audience.

Gramex: A Finnish copyright society which promotes and administers the rights, of performing artists whose performances have been recorded on phonograms and of producers of phonograms. The main beneficiaries from Gramex's payouts are singers and musicians who have music played or otherwise performed by them broadcasted on radio or public places from a record.

IFPI: IFPI Finland (The Finnish National Group of IFP, in Finnish Musiikkituottajat) is the national trade association representing 23 record companies in Finland. The members range from major international record companies (EMI, Sony, Universal and Warner) to small independent record producers.

Minimum price: In this thesis minimum price refers to the lowest possible final concert fee price, so that the income of the band/artist/(agent) would not change compared to the scenario where live music is VAT exempted. The minimum price is mostly tax-free. However, depending on the final customer it might also be VAT included.

PA system: The complex system of microphones, loudspeakers, amplifiers, cables, effect racks, mixing consoles and other equipment used to reproduce and amplify and distribute the sound in a concert or event.

Phonogram: a recording of music, such as a CD

Teosto: The Finnish copyright society that collects royalties on behalf of songwriters and composers.

Treasury: the state treasury responsible for collecting taxes

Troubadour: a singer/musician who performs alone, usually singing and playing an instrument. A troubadour's performance may include background tapes, synthesizers etc.

VAT: Value added tax

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ABSTARCT

GLOSSARY

1 INTRODUCTION

“Music can change the world because it can change people” – Bono

The music business has been in reform for quite some time now - and still is. New ways of thinking - thinking outside the box, has been the trend in recent years. The business has been forced to change and adapt according to challenges and changes made by "third parties", for example Spotify, YouTube, piracy etc. These third parties have changed the income structure in the music business radically, for record labels, artists, bands and all the other suppliers linked to the core product - music.

In 2013 the selling of records represented only 8 percent of the total music business in Finland, which that year was worth 863,2 million euros. It is very difficult to identify the exact amount of people that the music is employing, as the supply chain is very long. It consists of technicians, fan shop managers, musicians, crew bus drivers, producers, mixers, singers, songwriters etc. According to EU statistics “copyright professions” employ 4,3 percent of the Finnish labor force and is 4,8 percent of our gross domestic production (Kaira L. 2013, 16). In 2012 it was estimated that the core of the music business in Finland employed approximately 30.000 persons (Tolppanen 2012). The songwriters and performing artists are still the most important factors in the business, as no supply chain would exist without them.

However, most of these musicians, singers and songwriters live under the poverty line. Statistics show us, that in 2010 only 156 songwriters got settlements for more than 20.000 euros of the 28.000 songwriters that Teosto represent (Heikkilä 2011). Gramex, that represents singers and musicians, stated that the average settlement in 2013 was only 796 euros. Only 308 artists received a payment for more than 5000 euros, of which 125 of them got a compensation exceeding 10.000 euros in one year. On the basis of these statistics it can be stated that most artists and musicians get their living from something else. According to Music Finland and a research made by Tolppanen (2012), the live music sector was worth 438,8 million euros in year 2013.

In the Government Program (22.6.2011) of former Prime Minister Jyrki Katainen one of the main focuses was to strengthen the sustainable economical growth, employment and competitiveness. In this context it is also stated that the structure of the Finnish economy should be strengthen and its diversity should be expanded. In addition to strengthening traditional sectors, such as the primary production and the domestic base industry, the growth and entrepreneurship in the creative field of business should be supported. One of the measures mentioned in the Government Program was to look into and eventually reform the legislation of the taxation within the creative sector.

One of the two big taxation questions within the music business concerns 51 percent of the music sector directly. This is the VAT regulation of live music. Since 1994, when VAT was introduced in Finland, the live music field has been exempt from VAT. This is because, in the eye of the law, a publicly performing artist, a writer or a composer doesn't usually practice their profession as a company, and thus they are not seen as taxable persons and their earnings are therefore compared to a personal salary.

However, the making of music has taken huge steps since 1994, thanks to the development of technical equipment, and nowadays almost anyone can have a home studio and produce music with low starting costs. This has resulted in many new entrepreneurs in the music business.

Not only has the technology developed, but also the whole music business itself has become much more professional throughout the entire supply chain. According to a research made by Teosto, 58 percent of those who took part in the survey and filled in the questionnaire run their own business. 70 percent of those born in 1980 or later ran their own business. Overall, the creative business field is usually full of entrepreneurs that sell their own know-how. This is because open positions for singers and musicians on the job market hardly exist.

With a changing world the different suppliers within the music business have been forced to change their routines and standards to survive. Those that have seen these changes as a possibility instead of a threat have survived, and will keep on blossoming through the renaissance of the music industry. However, to maintain the blossoming and to support the huge growth potential within the business, regulations related to and around it should be developed simultaneously and change alongside it accordingly. Starting with letting the music entrepreneurs act like ones, with same rights and obligations as other business entrepreneurs.

2 RESEARCH QUESTION

In this section I will go through the purpose of my study and also discuss my research methods and materials used. I will also try to point out possible weaknesses and strengths of this thesis.

2.1 Purpose of the study

The purpose of the study is to look into the VAT legislation in Finland, in particular the impact on professional live music business. I believe that the present VAT legislation is not up to date, as the live music business has changed a lot during the last 20 years, as VAT became compulsory in Finnish business 1994. At the moment the main act of live music business, i.e. the performance itself is VAT free (article 45), even though all business areas connected to the live performance have VAT included in their prices. This leads to a double VAT taxation within the supply chain of live music. In my opinion this system is outdated and is the main reason for many financial problems concerning the whole live music supply chain. The final prices are too high and the net incomes are too low through out the supply chain.

I intend to prove that by updating the current legislation the live music business overall in Finland would be revived. In the study I will also go through all the different areas and explain how the possible change of the VAT legislation article 45 would affect all the Parties involved. What would change, how should it be changed and what would the benefits and/or possible negative impacts be? The study will show examples on possible changes that could bring the VAT legislation into the present time.

My main goal is to state that - by changing the VAT legislation article 45, all parts involved in the live music business would benefit from it! This would include all, such as technicians, technical suppliers, car and bus rentals, restaurants and other shareholders and associates that buy live music, agents that sell live music, artist and bands, and finally also the end consumers. I will also try to show that these changes would in the long run increase investments, jobs and the income in the live music business. This would ultimately also support the growth of the entire national economy.

2.2 Materials and Methods

This thesis will analyze the possibility to implement value added tax on live music earnings. It will also look into the affects on different parties in live music business, if value added tax would be implemented on live music fees. Practical and theoretical research has been used in this thesis as well as qualitative and quantitative methods.

Theoretical research

To fully understand this research a thorough study of the VAT legislation and principle is necessary. The reader should understand how this legislation works and how it affects the entire business through impacts on all the players in the game - sellers, buyers and consumers

As value added tax is part of the European Union principle, I have used the VAT directive and its different articles in this research. I have also gone through the Finnish legislation on value added tax and the history behind the current VAT legislation in live music.

Studies on the value added tax and its principles by different authors have been used. Quantitative research has also been done using publications concerning the music business, made by official music institutions such as Teosto and Music Finland.

The study will also compare VAT legislations concerning this kind of business area in other EU countries. It will also look into VAT principles in similar business areas - selling of entertainment, experiences and other cultural events and services etc. Also other business areas that benefit from special VAT reduction will be studied, and as a conclusion, I will suggest the best possible solutions to implement VAT into the live music area.

Practical research

Qualitative research has been made during the past two years as I have discussed this issue with all the different parties involved in the supply chain of live music; musicians, artists, technicians, agents, DJs, troubadours, buyers of the live music and festival organizers. I have also been in contact with different unions concerning live music such as SOA (The Union for Finnish Agencies) and The Finnish Union for Music Entrepreneurs. Institutions such as IFPI, Teosto and Gramex have helped my investigation by offering me advice, facts and numbers concerning the live music business field. Several accountants and a representative of the state treasury have also assisted me as well as representatives from The Ministry of the Economy in Finland. All statements that don't have a stated source are knowledge gathered from these institutes, unions and persons by e-mail and/or discussions. Some are also my own observations on the basis on these statements.

2.3 Strengths and weaknesses

This thesis will look at the VAT legislation problem mainly from the professional aspect. This means that bands and artists that don't practice their trade for living are not the main focus in this thesis. So, when talking about the total income of live music it is difficult to know exactly how large of a part these semi-professional bands and artist are from the cake. It is also impossible to know how big of a percentage private buyers are of the total income, as a private person is not obligated to report the live music performance of a private party i.e. weddings.

Still all statistics are gathered from formal institutions, as Teosto, Gramex, Music Finland and IFPI that represent mainly the professional field of music business. Therefore, it can be said that the figures stated in this research correspond to the truth and are very accurate to the research question.

The main focus of this thesis is on those bands and artists that employ themselves full-time or at least part-time by music. I believe that the reform of the VAT legislation would help these musicians to develop and grow their businesses. The thesis is also mainly focusing on those who act through some form of a company and only briefly mention those that act through tax-card. This is because the value added tax (VAT) – the implementation and deduction possibilities - concerns directly only companies. However, those individuals that act through tax-card are still employed by a company, which the VAT implementation and deductions do affect. Therefore, the affect on companies can be mirrored on individuals they employ, but these individuals are not discussed more closely in this thesis.

The thesis will go through all the main suppliers and buyers, in the supply chain of live music and discuss the affects of VAT implementation from different perspectives. I believe that this is the strength of this thesis and that it will hopefully clarify and explain the VAT problem. However, prices - both income and costs - vary extensively in the supply chain of live music and it is therefore impossible to calculate specific results. Therefore in this thesis I have tried to explain all possible variables and present the results in the form of percentages to argue a truthful result in the conclusion. However, all the numbers used in thesis are gathered by personal experiences, field research and observations, and can therefore be seen to be accurate.

This thesis will study and calculate the pros and cons of the possible implementation of VAT into live music using the data currently available. It will not study and compare the current VAT exempted situation to possible VAT implemented situation in a long-run as it is impossible to calculate and estimate future average costs and incomes from the live music field. This is because prices change frequently, and it is nearly impossible to foresee the success of a band/artist, which corresponds directly to the amount of gigs and concerts played. One should also estimate the coming situation of the national economy and know how much money the consumers have at hand to spend on entertainment in the future to make a long-run evaluation on the VAT implementation affects. This thesis will not include correlation analysis on these questions, as it is not directly linked to my core research question.

The VAT law and theory studied and practical calculations made will try to demonstrate how and why the VAT exemption is not the best possible solutions when talking about “tax-free” prices in live music. However, the Finnish VAT legislation (article 45) about VAT exemption doesn’t only concern musicians. It also concerns other performing artists, such as dancers and also athletes. These professions are not included in this research as they are not part of my core research question, even though the practices and calculations can be implemented on them as well.

As I wish that musicians and other parties involved in live music business would read this, especially the ones that are against the VAT implementation into live music, I have tried to explain all the possible scenarios that I have encountered during my practical research and analyze the pros and cons.

I hope this thesis could in some way be seen as an opus in both theory and practice when discussing about the VAT implementation into live music.

3 VALUE ADDED TAX (VAT) LAW WITHIN THE EUROPEAN UNION

In this section I will discusses the history and theory behind the value added tax (VAT). As it is also important to understand the terminology when talking about VAT I will also explain the different components that are involved in VAT discussions. These terms will be used through out the thesis.

3.1 Introduction of VAT

When the European Economic Community (that was officially renamed European Community in 1993) was created 1957, the six original Member States: Belgium, France, Italy, Luxembourg, the Netherlands and West Germany were using different forms of indirect taxation. Most of these indirect taxations were cascade taxes, which were multi-stage taxes. This meant that, each one of the six Member States taxed on the actual value of the output, at each stage of the productive process, making it impossible to determine the real amount of tax that actually included in the final price of the finished product. (History 2006.)

It was very clear that to build an efficient, single market in Europe, a neutral and transparent turnover tax system was required which would ensure tax neutrality. The "Principle of Neutrality" will be defined later on in section 2.1.2.

The first two VAT Directives presented only the general structures of the system and left it to the Member States to determine the coverage of VAT and the rate structure. In 1977, the Council of the European Communities sought to harmonize the national VAT systems of its member states. The Sixth Directive was implemented, which established a uniform VAT coverage.

The Sixth Directive still however, allowed Member States many possible exceptions and derogations from the standard VAT coverage. Moreover, it did not set out specific rates of VAT to be applied in Member States with the result that these differ widely even today (VAT History 2014). In 2006, the Council sought to improve on the Sixth Directive by recasting it (VAT Directive (1)). The Recasted Sixth Directive became VAT Directive

2006/112/EC of 28 November 2006 (Official Journal L 347, 11.12.2006, 1), which has ever since been the essential piece of EU VAT legislation. This directive will be the main source of information in this research.

3.2 VAT Directive Principles

The purpose of the VAT Directive is to establish a common VAT system (VAT Directive, 1(1)).

"The principle of the common system of VAT entails the application to goods and services of a general tax on consumption exactly proportional to the price of the goods and services, however many transactions take place in the production and distribution process before the stage at which the tax is charged. On each transaction, VAT, calculated on the price of the goods or services at the rate applicable to such goods or services, shall be chargeable after deduction of the amount of VAT borne directly by the various cost components." (VAT Directive, 1(2)).

This statement implies that VAT shall not to be a cost for the companies, the VAT system should be of a neutral character, which will be more closely explained in the next section. In order to preserve neutrality of VAT, the rates applied by Member States should be such as to enable, as a general rule, deduction of the VAT applied at the preceding stage (VAT Directive (30)). In section 4 I will look into the "Right to Deduct" that should ensure that the taxable person's business do not carry the burden of VAT. The final tax burden in relation to VAT is on the last person in the transaction, thus the consumer. Neutrality is the fundamental principle of the VAT law (Lang, Melz, Kristoffersson 2009, 203).

3.3 The Principle of Neutrality

A key requirement for a good tax system is that it should preferably not interfere with the efficient allocation of resources (Stieglitz, E.J. 2000, 458). As a general rule, a tax system should therefore be neutral.

The principle of neutrality is the central part of the VAT system and it's of major importance to understand this, in order fully to comprehend this research.

In general, the neutrality principle means that there should not be any difference between the treatment of persons, supplies, rates, etc. in the VAT system. Neutrality makes VAT "general". The lack of VAT neutrality leads to market distortions (Lang, Melz, Kristoffersson 2009, 203).

A VAT system achieves the highest degree of simplicity and of neutrality when the tax is levied in as general a manner as possible and when its scope covers all stages of production and distribution, as well as the supply of services (VAT Directive, (5)).

Even if rates and exemptions are not fully harmonized in the Member states, the common system of VAT should result in neutrality in competition. Similar goods and services should bear the same tax burden, whatever the length of the production and distribution chain (VAT Directive, (7)).

The principle of neutrality will be demonstrated in section 4; VAT in Theory.

However, for an operation, to be subjected to VAT in the first place there are three conditions that have to be fulfilled; economic activity, taxable transaction and taxable person (VAT Directive (2)). Below there will be a brief overview of these three conditions.

3.4 Economic Activity

"Any activity of producers, traders or persons supplying services, including mining and agricultural activities and activities of the professions, shall be regarded as 'economic activity'. The exploitation of tangible or intangible property for the purposes of obtaining income there from on a continuing basis shall in particular be regarded as an economic activity." (VAT Directive, 9(1) para. 2).

3.5 Taxable Person

"Taxable person shall mean any person who, independently, carries out in any place any economic activity, whatever the purpose or result of that activity." (VAT Directive, 9(1)).

States, regional and local government authorities and other bodies governed by public law are not regarded as taxable persons in respect of the activities or transactions in which they engage as public authorities (VAT Directive 13 (1)).

However, in any event, bodies governed by public law shall be regarded as taxable persons in respect of the activities listed in Annex I (VAT Directive 13 (3)).

This concludes that any person, physical or legal can be a taxable person as long as they fulfill the conditions, thus supplies taxable goods or services in the course or furtherance of his/hers business. However, if the annual turnover of this person is less than a certain limit, which differs according to the Member State, the person does not have to charge VAT on their sales (VAT History 2014).

3.6 Taxable Transaction

Taxable transactions may be defined as the supply of goods and services in return for a consideration made by a taxable person in the course or furtherance of his business (Guide 2014). Supply of goods is the transfer of ownership in the dispose of tangible property (VAT Directive, 14(1)). A transaction, which is not a supply of goods, is considered to be a supply of service (VAT Directive, 24).

4 VAT IN THEORY

Value added is the value that a producer, thus taxable person (whether a manufacturer, distributer, agent, hairdresser, farmer, or shop owner) adds to his raw materials or purchases (other that labor) before selling further the product or service (Tait 2001, 4). The VAT due on any sale is a percentage of the sale price. The percentage rate differs between Member states. However, the basic rules are that supplies of goods and services subjected to VAT have a standard rate of at least 15% (VAT Directive 97 (1)). Member States may apply one or two reduced rates of not less than 5% to goods and services enumerated in a restricted list (VAT Directive 99 (1)).

Value added can be looked at from the additive side (wages plus profits) or from the subtractive side (output minus inputs) (Tait 2001, 4). The inputs (the raw material, transport, rent, advertising, etc.) are bought, people are paid wages to work on these inputs and, when the final good or service is sold, some profit is left.

Value added = wages + profits = output – input

"Output-input" is the subtractive-indirect (invoice or credit) method and the original EC model used in the Member states (Tait 2001, 4).

The VAT on sold supply is a self-assessed tax that each taxable person submits as a payment to the treasury. However, from this amount the taxable person is entitled to deduct all the tax already paid at the preceding stage (General 2014).

This way, the Principle of Neutrality is carried out and double taxation is avoided. Thus, tax is paid only on the value added at each stage of production and distribution. In the end, the final price of the product is equal to the sum of the values added at each preceding stage; the final VAT paid is made up of the sum of the VAT paid at each stage (General 2014).

To fully recognize the focus in this research the Principle of Neutrality is essential to understand. Below an example of how the system operates;

Example.

Stage 1

A farmer sells food supply to a grocery store. The sale is worth 1000€ and, if the VAT rate is 14%, the farmer charges its customers 1140€. It should pay 140€ to the treasury, but as it has bought 300€ worth of tools in the same accounting period, including 72€ VAT, it is only required to pay 68€ (140€ less 72€) to the treasury. The treasury also receives the 72€, paid by the tool supplier, and now gets 68€ making 140€ - which is the correct amount of VAT due on the sale of the food supply.

Supply: 1000€
VAT on supply: 140€
VAT on purchases: 72€
Net VAT to be paid: 68€

Stage 2

The grocery store has paid 140€ VAT to the mine and, say, another 50€ VAT on other purchases, such as furniture and office equipment. So when the grocery store sells 2000€ worth of groceries it charges 2280€ including 280€ VAT. The store deducts the 190€ already paid on his inputs and pays 90€ (280€-190€) to the treasury. The treasury receives this 90€ from the store plus 68€ from the farmer, plus 72€ paid by the supplier of tools to the farmer, plus 50€ paid by the furniture/office equipment supplier to the grocery store.

Supply: 2.000€
VAT on supply: 280€
VAT on purchases: 190€
Net VAT to be paid: 90€

90€ (paid by the grocery store) + 68€ (paid by the farmer) + 72€ (paid by the supplier to the farmer) + 50€ (paid by the supplier to the grocery store) = 280€ or the correct amount of VAT on a sale worth €2000.

As the example show the output VAT for the taxable seller becomes deductible input VAT for the taxable purchaser in the next step of the sales chain, until the good reaches the final consumer. In the next section we will look more closely at the right to deduct value added tax.

5 THE RIGHT TO DEDUCT VALUE ADDED TAX

In this section I will go through the origin and scope of the right to deduct value added tax (VAT) in a supply chain.

5.1 Deduction in General

The right to deduct input VAT is what makes the consumption tax a value added tax. If input VAT could not be deducted, it would burden the taxable seller as a selling cost instead of being a value added tax - that should burden the final consumer of the sales chain. In this section rights and conditions, rules and controls and restrictions of the right to deduct are outlined, so that a complete understanding of this research is possible.

5.2 The Origin and Scope of the Right to Deduct

"A right of deduction shall arise at the time the deductible tax becomes chargeable." (VAT Directive, 167).

The VAT Directive mentions in articles 168-172, both the right to deduct VAT and the entitlement to obtain a refund. A VAT refund is possible to obtain, when the input VAT exceeds the output VAT or if the taxable person is situated in another Member State or outside the EU (VAT Directive 169-172).

5.2.1 General Conditions for the Right to Deduct

In order for a taxable person to deduct input VAT the taxable transaction has to fulfill certain conditions.

A taxable person is entitled, in the Member State in which he carries out a taxable transaction, to deduct the VAT on - goods and services, intra Community acquisitions of goods and importation of goods if they are used for the purposes of the taxed transactions (VAT Directive, 168).

A court judgment declared that Article 17(2), (3) and (5) of the VAT Directive must be interpreted as meaning that, in order for the taxable person to be entitled to deduct input VAT and in order to determine the extent of such a right, a direct and immediate link between a particular input transaction and a particular output transaction has to exist (Case C-98/98, (24)).

According to this definition, the right to deduct is limited only to economic activities subject to VAT. Thus input VAT related to businesses exempted from VAT are not deductible.

5.2.2 Rules and controls governing exercise of the right of deduction

Adequate controls are crucial for a VAT system. Controls are exercised through a numerous ways; taxpayer registrations, invoices, refunds and audit (Tait 2001, 284). Taxpayer registrations usually require making periodical returns on purchases, sales and also input and output VAT. The collection and maintenance of a comprehensive and accurate register are essential for the operation of a VAT system.

A taxable person must comply with the formalities as laid down by each Member State, in respect of transactions treated as the supply of goods or services, in the purpose of deduction (VAT Directive, 178(b)).

Usually Member States grant exemptions to small enterprises by not requiring those with small turnover to register (Tait 2001, 285).

Each registered taxpayer has an identification number, which is essential for VAT. This registered number should be stated on the invoice, which is the crucial control document of VAT. An invoice drawn up in accordance with the VAT Directive shall verify the right to deduct (VAT Directive, 178(a)).

Together with the invoice a taxable person should, for a given tax period, make a VAT return stating all the information needed for the calculation of the VAT amount.

If the amount of deductions exceeds the amount of VAT due for a given tax period, the

Member States may, in accordance with conditions which they shall determine, either make a refund or carry the excess forward to the following period (VAT Directive, 183).

The taxable person shall make the deduction of VAT due for a given tax period in respect of the total VAT of the same period (VAT Directive, 179). However, Member States may refuse to refund or carry forward if the amount of the excess is insignificant (VAT Directive, 183).

5.2.3 Restrictions on the Right of Deduction

In the case that a taxable person uses goods or services as input in a transaction where the VAT is deductible and in transactions of which VAT is not deductible, the right of VAT deduction concerns only in proportion to the input VAT linked to the output VAT in a deductible transaction (VAT Directive, 173).

Article 176 of the VAT Directive states that the Council, acting unanimously on a proposal from the Commission, shall determine the expenditure in respect of which VAT shall not be deductible. VAT shall in no circumstances be deductible in respect of expenditure, which is not strictly business expenditure, such as that on luxuries, amusements or entertainment. (VAT Directive, 176 (1).)

Each Member State may, for cyclical economic reasons, totally or partly exclude all or some capital goods or other goods from the system of deductions. However, to do so the Member State must consult the VAT Committee. (VAT Directive, 177 (1).)

In addition to these restrictions, the VAT Directive has listed goods and service that are exempted from VAT. Input VAT used for manufacturing these exemptions are not deductible.

In the next section the exempts of goods and service will be analyzed.

6 EXEMPT GOODS AND SERVICES

VAT directive has listed exemptions for certain activities in the public interest, as for example, postal service, hospital and medical care (VAT Directive, 132(1) (a)-(q)). Most of these exemptions listed are goods and services connected to the well being of the nation. Goods and services sold to the taxpayer, thus the final consumer. These institutes providing these goods and services are run by the state, regional and local government authorities and other bodies governed by public law.

Even thought the EU VAT legislation was made to build a single market with same obligations and standards there are still some exemptions within member countries. Therefore, in Intra-Community acquisition the goods are exempted from VAT, in the circumstance that the good is exempted from VAT in the particular territory to where the good is imported (VAT Directive 140 (a)).

Goods are also exempted from VAT if the Intra-Community acquisition is made by a taxable person, not established in the Member State concerned but is identified for VAT purposes in another Member State (VAT Directive, 141 (a)). The VAT on the purchase is paid afterwards according to the VAT rate and rules of the destination. This practice should result in neutrality in competition, as similar goods and services bear the same tax burden within the respective Member State.

The VAT Directive also provided for exemptions, which depends only on annual value of sales. It is so-called exemption for small enterprises. The limit differs between Member states. In Finland the limit is 8.500€.

In addition to the exemptions ruled by the VAT Directive, some Member countries have negotiated special exemptions. In Finland live music is one of these special exemptions. In the next section inaccuracies and limitations on exemptions will be studied. The understanding of the following sections will be very crucial for the conclusion of this research.

6.1 Inaccuracy and limitations on exemptions

Exemptions in the VAT system do not provide complete relief from the tax. Exemption does relieve the taxable person from output VAT, however all his purchases, including capital goods etc. are taxed in the form of input VAT (Tait 2001, 64). Thus, even if the exempt supply of good is produced with inputs fully part of the VAT system, the manufacturer cannot claim a credit for the VAT on his input, treating the taxable person as a final consumer. This leads to that value added is taxed more than once. Consequently, the exempted manufacturer or any other intermediate producer would increase total VAT collected by the Government and the final retail price of the product (Bickle 1989, 6). Because of this, a tax-on-tax cascade is introduced into VAT - a situation that VAT was designed to eliminate. The increase in compliance costs and risks for business will reduce/vanish the intended benefits of VAT exemption for the taxable person (Van Brederode 2009, 132).

From both theoretical and practical viewpoints, exemptions should be kept to a minimum, and these should be for a well-defined reason of social interest and for the benefit of the ultimate consumers (Tait 2001, 65). However, unless the entire supply chain of a good or service, is treated in a way that relieves it on VAT payment, the VAT on inputs will be absorbed into the price charged for their output, and the consumer will end up paying the VAT anyway (Tait 2001, 65).

So, in theory, if the authorities really wish to ensure that a product is to be exempted from VAT, a “Zero rating” should be implemented. With a zero rating a taxable person is still fully compensated for any VAT he pays on inputs (Tait 2001, 65). However, the Commissions view zero rates as a transitional measure that is tolerated only temporarily by the Community (Tait 2001, 69).

6.2 Justifications for Exemptions

According to Mr. Alan A. Tait (2001) there are three ways in which exemptions can be justified. First, there are exemptions that may be designed to improve the progressivity of the VAT. Second, there are those goods and services that are in Musgrave’s terminology; social wants and so meritorious so that they may deserve to be tax-free (Ver Eecke 2007, 23). Third, some goods and services are just too difficult to tax (Tait 2001, 70).

If looking at the list on exemptions listed by the VAT Directive, then the list cannot be justified under the heading of improving progressivity or merit. I think all can agree that supplies as education, health, water, books and culture might be considered meritorious and therefore not be taxed. However, this would mean that they should be under zero rating, as through exemptions, these goods and services do pay VAT on the inputs and don’t have the opportunity to deduct/reclaim it (Tait 2001, 70). So, for example, schools and universities can hardly be said to be free from tax. However, in some countries as in Finland, where schools are usually financed by the state, the VAT legislation states that the governmental institutes do get their paid input VAT back in a nonstandard way, which makes them under zero VAT rated. This is important to know later on in this research when looking into the right to deduct VAT by different parties involved in live music business.

Equity has been an argumentation to exempt or zero-rate for example food and public transport. For the same reason, taxation has been justified on for example electricity and telecommunications (Tait 2001, 72).

What makes the use of exemptions to achieve progressivity inefficient and probably inequitable is that the bias introduced will not necessarily reflect income differential and in some cases it could favor the richer households and penalize the poorer.

The third justification to exemption is the group of goods and service that are too difficult to tax for example second hand goods where the position is not so clear regarding registered business to unregistered person trade in secondhand goods (Tait 2001, 116).

7 VALUE ADDED TAX LAW WITHIN LIVE MUSIC IN FINLAND

Finland implemented the VAT system in 1994 as they joined the EU in 1995. During that time Finland was full of dancing pavilions/dancing facilities that offered live music. These places were spread all over the country and were mostly run by non-profit societies.

The VAT Directive does not regulate non-profit activity explicitly. However, as earlier mentioned the VAT Directive definition of a taxable person is any person who independently carries out any economic activity in any place, whatever the purpose or results of that activity might be. As an economic activity usually is the opposite of a non-profit one, it is obvious that a typical activity of a non-profit sector is outside the scope of the VAT. However, if a non-profit organization performs economic activities as a supplementary activity, they are qualified as taxpayers according to the VAT Directive.

Finland implemented an exemption on live music, hoping that it would support the non-profit organizations, which were at that time, the main buyers of live music. Other Member countries with the same exemption in the EU are only Sweden and Latvia.

The exempt from VAT on live music is based on the European Union VAT directive (2006/112/EY, later value added tax directive) 379, article 2 that states:

“**Finland** may, in accordance with the conditions applying in that Member State on the date of its accession, continue to exempt the supply of services by authors, artists and performers…for as long as the same exemptions are applied in any of the Member States which were members of the Community on 31 December 1994.”

7.1 The Finnish VAT Law within Live Music – “AVL 45 “

The VAT exemption offered by EU VAT directive, article 379, paragraph 2 is stated in the Finnish VAT legislation as follows;

Performing artists’ fees and certain incorporeal rights as stated in the Finnish VAT legislation

Article 45

Tax is not payable on:

1) Fees to performing artists, to other public performers or to sportsmen

2) The sale of a performance of the performer referred to in section 1), when the performance is intended to be supplied to the arranger organizer of the event

3) The transfer of the right to audio and image recordings of the performance of the performers referred to in section 1), or on remunerations paid on the basis of this right

4) The transfer of rights referred to in Articles 1, 4 or 5 of the Copyright Act (404/61, or to remunerations paid on the basis of those rights.

The exemption referred to in paragraph 1, sections 3) and 4) above, does not apply to the transfer of the right to photographs, advertising works, maps or the map making material, automatic data processing systems or computer programs, nor the transfer of the right to present films, video programs, or other similar programs.

Nor is tax payable on the transfer of rights by virtue of the Copyright Act, or on remunerations paid on the basis of those rights, in the cases referred to in Article 13, Article 14, paragraph 1, Article 25 h, paragraphs 1 and 2, Articles 25 i, 26 a, 26 i, 47 and 47 a of that Act, when the remuneration is paid to or by an organization representing copyright holders. (Value Added 1993.) The Finnish government has more closely explained the exemption in the Finnish law for value added taxes (88/1993) in section 6.4.7:

Artist performances and some intellectual property

“Artist performances and copyright fees are suggested to be exempted from the value added tax, mainly for bureaucracy reasons. This is because a publicly performing artist, a writer or a composer doesn’t usually run their profession business vice, i.e. as a taxable person and therefore their earnings can be compared to a personal salary.” (Author translation) (Pollari 2013).

7.2 Article 45 in theory and practice

As explained in section 6.2, exemptions are rarely actually exempted of VAT, because input VAT can't be deducted. Below I will demonstrate how the "AVL 45" legislation works in theory. The current VAT rates as stated in the Finnish legislation are used.

In the following example (Example 1) the prices used are "average prices" and based on my own field research from the years 2013 and 2014 when I made 170 concerts as a performing artist. The example is also constructed in the way that the buyer of the live music, is VAT registered (income over 8500€) and doesn't have any other additional economic activity, i.e. selling of alcohol. This is to keep the example as simple and understandable as possible.

Example 1.

Live music payment;
The Band gives a concert at the Music Club for a price of 3000€

The Band costs:
Agent fee 18%: 540€ (exempted from VAT)
Technical equipment rent: 600€ + 144€ (VAT 24%) ≈ 744€
Bus rental: 200€ + 48€ (VAT 24%) ≈ 248€
Fuel: 50€ + 12€ (VAT 24%) ≈ 62€
Hotel: 290€ + 29€ (VAT 10%) ≈ 319€
Technical crew (sound): 236€ + 57€ (VAT 24%) ≈ 293€
Technical crew (lights): 236€ + 57€ (VAT 24%) ≈ 293€
As The Band can't deduct any VAT the total cost is: 2499€

VAT exempted concert fee 3000€ - VAT included costs 2499€ = 501€

The Band with 5 members (vocals, guitar, bass, drums, keyboards) gets 501€.

The Club sells concert tickets for a price of 10€ + 1€ (VAT 10%)≈ 11€
Tickets sold: 400 tickets 4000€ + 400€ (VAT 10%) ≈ 4400€

From this The Club pays the output VAT 400€ to the treasury as the club doesn't have any input VAT to deduct the output VAT from.
Ticket income 4400€ – VAT 400€ - concert fee 3000€ ≈ 1000€

The Club gets a total of 1000€ and pays 400€ output VAT to the treasury.

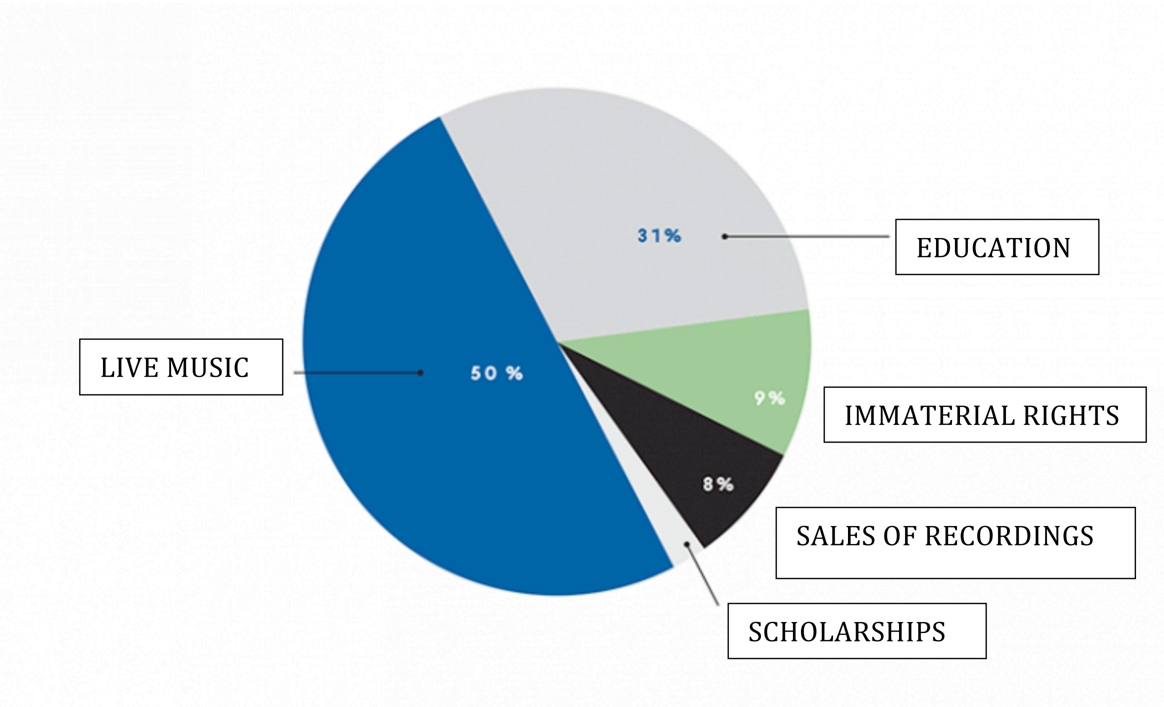
In the next section I will study the affect if adding VAT on live music.

8 ADDING VALUE ADDED TAX ON LIVE MUSIC

In this part of the thesis the main purpose is to analyze all the effects on different parts involved in the core supply-chain of live music business if VAT is implemented on live music. The introduction part will give general information of the total income of live music in Finland and also what suppliers the supply-chain for live music consists of.

8.1 Introduction

According to a research done by Music Finland, the core music business, i.e. the supply of goods and service linked directly to music, was worth 863,2 million euros in year 2013. It has grown 3,1% since year 2012. Most of the growth has taken place in the field of live music. Live music is calculated to be worth 438,8 million euros and corresponds to 51% of the whole cake, as illustrated in GRAPH 1 below. (Tolppanen 2013.) This number is calculated on the basis of the copyright information gathered from the private sector by Teosto and the annual sum used to finance city orchestras and the National opera. The sum used for church music and the military are also included.



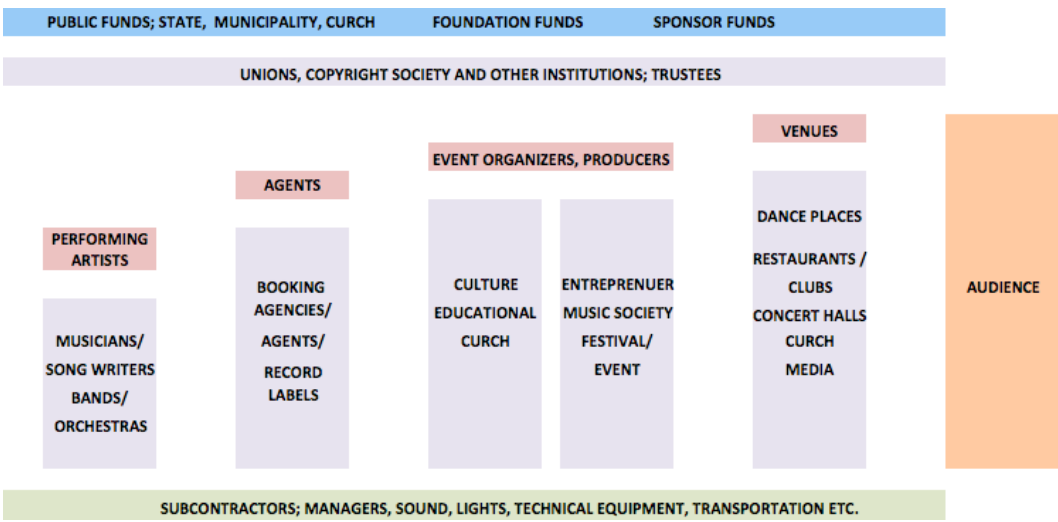
GRAPH 1. The Economy of Music in Finland (Tolppanen 2013)

TABLE 1 shows that the private sector, which is usually not funded by the state, represents 55% of the total income of live music. I will not analyze the amounts of grants and other funds invested into live music, as it doesn't affect directly the conclusion of my main research question in this thesis.

TABLE 1. How income is divided in the live music sector (Tolppanen 2013)

YEAR	2013	2012	2011	2012-2013
LIVE MUSIC IN FINALND	438,8M €	413,8M €	403,4M €	6,00 %
PRIVATE SECTOR	240,8M €	216,3M €	212,2M €	11,30 %
ORCHESTRAS	78,1M €	77,3M €	74,1M €	1,10 %
NATIONAL OPERA	55,4M €	55,9M €	52,7M €	-0,80 %
CURCH	54,0M €	54,0M €	54,0M €	0,00 %
MUSIC WITHIN MILITARY	10,4M €	10,4M €	10,4M €	0,00 %

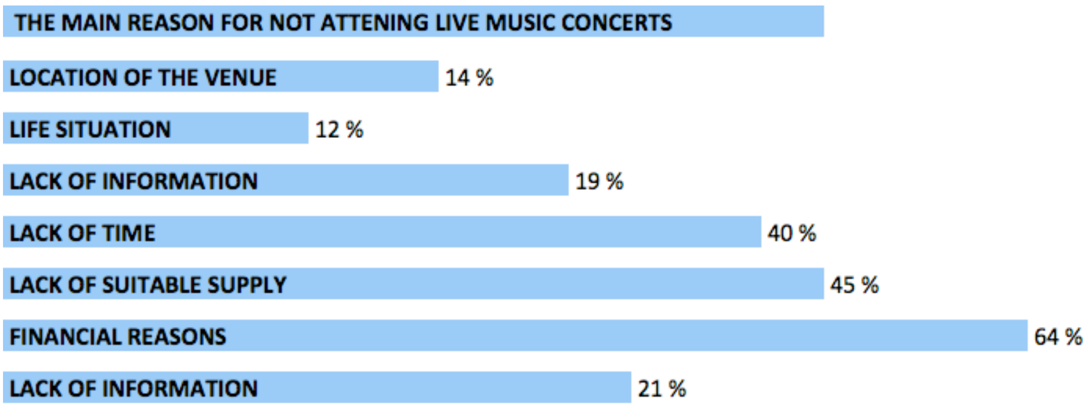
The live music business field is very wide. It's a chain of several different goods and service suppliers and buyers: technicians, restaurants, musicians, etc. The main chain is the band/artist - agent/booking agency – restaurant/night clubs/other buyers (such as non-profit societies and other companies) - technical crew – technical equipment - car/bus rentals - consumer. This is illustrated below in GRAPH 2.



GRAPH 2. The main supply-chain of live music (VAKAn loppuraportti 2011)

Especially the private sector referred to in TABLE 1 usually consists of several entrepreneurs, in the form of freelancer musicians, agencies, artists, technical crew and venues, which the VAT implementation will affect.

In the next sections I will analyze how the implementation of VAT into live music would affect these different parties. An important part of the live music supply chain that I will also study is the final consumer, i.e. the one who buys the entrance ticket to the live music show. According to the VAKA report on live music, 64 percent (See GRAPH 3) of those 125 persons who answered the survey states that the reason for not going to live music shows/concerts are financial problems. From this we can conclude that the entrance ticket prices are too high, compared to the income of the ticket buyers.



GRAPH 3. The main reason for not attending live music concerts (VAKAn loppuraportti 2011)

As a change in the VAT legislation/system also might affect the national economy, it is therefore very important to analyze the impact on this as well. In section 8.3 these different parties will be analyzed and researched on the subject – how VAT implementation into the live music fees would affect them and their core business. In the final conclusion I will try to answer if the VAT implementation on live music would benefit or harm the main economic activity of all the suppliers involved in live music. How and why?

However, before this we should have a look at another important question. Which VAT rate should be implemented on Live Music?

8.2 Which VAT rate should be implemented on Live Music?

The standard VAT rate in Finland is 24%, which is implemented on most products and services. There are two reduced rates of which the first one is 14% - implemented on food and other foodservices, such as restaurants. The second one is 10% - implemented on books, medicines, fitness services, cultural events, movie and other entertainment entrance tickets, taxi services and hotels.

It can be discussed should the VAT implemented on live music be the standard rate of 24 percentages or a reduced VAT rate of 10 percentages. A VAT rate of 10 percentages would link the supply of the service, in this case the live music act, directly to the entrance fee, which at the present time carries a VAT percentage of 10. Also other cultural and entertainment services, such as "outdoors experiences", such as Safaris, are subject to a 10 percent VAT. A VAT rate of 24 percentages would again link it to the possible supplies used in a live music act, such as audio system and bus-rental.

Below some examples are given of what would happen if 10 or 24 percent VAT would be implemented on the price in live music supply chain. I'll use the same prices and conditions as in example 1 in section 7.2. It should be remembered that the tickets sold to live music shows and concerts by a taxable person already includes 10 percent VAT by law.

Before looking into the example it is good to remember, that the tax-free prices and value added taxes are always calculated separately.

Example 2.

This example shows what happens if VAT 10% is implemented on the price.

The Band gives a concert at the Music Club at a price of 3000€ + 300€ (VAT 10%) ≈ 3300€

The Band cost:

Agent fee 18%: 540€ + 54€ (VAT 10%) ≈ 594€

Technical equipment rent: 600€ + 144€ (VAT 24%) ≈ 744€

Bus rental: 200€ + 48€ (VAT 24%) ≈ 248€

Fuel: 50€ + 12€ (VAT 24%) ≈ 62€
Hotel: 290€ + 29€ (VAT 10%) ≈ 319€
Technical crew (sound): 236€ + 57€ (VAT 24%) ≈ 293€
Technical crew (lights): 236€ + 57€ (VAT 24%) ≈ 293€

VAT included concert fee 3300€ - VAT included costs 2553€ = 747€

As The Band is able to deduct VAT, the total cost in this example is the tax free-price of 2152€.

Tax-free concert fee 3000€ - Tax-free costs 2152€ ≈ 848€, which is the sum that is earned by The Band.

Input VAT 401€ - output VAT 300 ≈ 101€
The treasury pays 101€ back to the band as the input VAT exceeds the output VAT.

The Band with 5 members (vocals, guitar, bass, drums, keyboards) gets in total 747€ plus the excess input VAT of 101€ paid back by the treasury. The total income to be divided between the band members is 848€ tax-free instead of 501€ as in example 1.

The Club sells concert tickets for a price of 10€ + VAT 10%≈ 11€
Sold tickets: 400kpl 4000€ + 400€ (VAT 10%) ≈ 4400€

VAT included ticket income 4400€ - VAT included costs 3300€ = 1100€

Tax-free ticket income 4000€ - concert fee 3000€ ≈ 1000€
Input VAT 300 – output VAT 400€ ≈ -100€
Ticket income 4400 € - concert fee 3300€ ≈ 1100€

The Club gets 1100€ and pays the excess output VAT of 100€ to the treasury. Total tax-free income 1000€.

Example 3.
This example illustrates what happens if VAT 24% is implemented on the price. I'll use

the same prices as in the earlier example.

The Band plays a concert at the Music Club at a price of 3000€ + 720€ (VAT 24%) ≈ 3720€

The Band cost:

Agent fee 18%: 540€ + 130€ (VAT 24%) ≈ 670€

Technical equipment rent: 600€ + 144€ (VAT 24%) ≈ 744€

Bus rental: 200€ + 48€ (VAT 24%) ≈ 248€

Fuel: 50€ + 12€ (VAT 24%) ≈ 62€

Hotel: 290€ + 29€ (VAT 24%) ≈ 319€

Technical crew (sound): 236€ + 57€ (VAT 24%) ≈ 293€

Technical crew (lights): 236€ + 57€ (VAT 24%) ≈ 293€

VAT included concert fee 3720€ - VAT included costs 2629€ = 1091€

As The Band does get VAT deductions the total cost is: 2152€

Tax-free concert fee 3000€ - Tax-free costs 2152€ ≈ 848€

Input VAT 477€ - output VAT 720€ ≈ -243€

The Band pays excess output VAT of 243€ to the treasury.

The Band with 5 members (vocals, guitar, bass, drums, keyboards) gets 1091€ tax-free and pays 243€ excess output VAT to the treasury instead of getting back the excess input VAT of 101€ as in example 2 above. Total income 848€.

The Club sells concert tickets at a price of 10€ + 1€ (VAT 10%)≈ 11€

Sold tickets: 400kpl 4000€ + 400€ (VAT 10%) ≈ 4400€

VAT included ticket income 4400€ - VAT included costs 3720€ = 680€

Tax-free ticket income 4000€ - tax-free concert fee 3000€ ≈ 1000€

Input VAT 720 – output VAT 400 ≈ 320€

The Club gets 680€ plus the excess input VAT of 320€ paid back by the treasury. Total income 1000€ tax-free.

Example 1 and 2 both demonstrates the positive effect VAT implementation could have on live music. The Band would increase their revenue by 69 percent compared to example 1. The buyer, i.e. The Club, would receive the same income as in example 1. The only exemption is that The Club would get its input VAT into deduction and only pay 100€ to the treasury instead of 400€ as in example 1. However, it is important to remember that the restaurants have also other output (ex. Alcohol cost) and input (ex. Rent cost) VAT that has an impact on the balance, as the band usually only has one output VAT, which is the concert fee.

In both cases the VAT implementation would not affect negatively on any part. Instead it would benefit both parties and in both examples the double taxation, as explained in section 6.1, would be avoided. When double tax is avoided it could have a positive affect on the final consumer price by decreasing the price of the entrance ticket.

However, as a conclusion a VAT implementation of 10 percent would be the best possible solution. Not only because it would then be in line with other similar services and also directly be linked to the VAT rate of entrance tickets. This could:

- increase the income of musicians with high costs and low income in the live music sector. As explained in the introduction, most musicians in Finland live under the poverty line.
- not increase the entrance tickets that already have a 10 percent VAT included in their prices. It could even lower the unnecessary high entrance tickets as the price of a concert fee could drop because of input VAT deduction possibilities.
- not impact too much on the concert fees, when sold to private persons and non-profit-organizations that cannot benefit from the VAT deductions. Many musicians are still dependent on wedding performances amongst others.
- help to reduce the gray economy. Concerts sold to private persons are often under the suspicions of gray economy. The possibility to deduct VAT from costs would be a good reason for the artist/band/musician to legally invoice the concert fee.
- be a soft landing for the live music supply chain into the world of VAT.

- most importantly, help the live music sector to grow, which would possibly also increase employment possibilities in the live music field, increase the low income of musicians and artists, decrease elevated prices due to the double taxation, increase live music performances and by this also increase the use of other regional services linked to events for example taxi services and hotels. All this would most certain have a positive impact on the national economy as such.

8.3 Effects of VAT Implementation on Parties Involved in Live Music Business

At this point it is good to remember that all economic activities in Finland, which are not VAT exempted by law, becomes VAT registered if the business turnover is 8500€ or more. This means that you may be VAT exempted if your turnover is below 8500€ - no matter what. However, even though your turnover is below 8500€ you may register yourself into the VAT system. A taxable person shall inform its VAT activity into the Finnish VAT system monthly, quarterly or early. This period is decided depending on your turnover. Again, even if your turnover is low, you may still notify your VAT balance monthly. In Finland the VAT balance is reported via a digital service that you access with your bank account codes. Your VAT refund is paid back to you depending on if you do your VAT report monthly, quarterly or annually.

In the following sections I will analyze the impact of VAT implementation on the live music business field. I will make calculations by comparing the current cost structure to scenarios where VAT of 10 percent is implemented into it. In the final conclusion there will be a deeper analysis on these effects and it will give a better understanding of the impact of VAT implementation into the live music business.

8.3.1 General

Before looking more closely into the different specific parts involved in the supply chain of live music I will in this section try to demonstrate in general how the VAT implementation of 10 percent would affect the tax-free incomes and prices in live music. I will often use the expression “tax-free minimum price” which refers to the lowest possible concert fee. The expression will be explained more closely in the following sections (See also glossary).

In general the VAT implementation would give the band/artist a possibility to implement output VAT in the invoice and also deduct all input VAT from costs. This would directly affect the concert fees by;

1. Increasing momentarily the current concert fee by the VAT rate of 10 percent to VAT registered companies. This because VAT is a transit payment.
2. Increase the current concert fee by the VAT rate of 10 percent to VAT exempted buyers, as non-profit societies don't get the VAT deducted.
3. Decreasing the tax-free minimum price of the concert fee and possibly also reduce the VAT included minimum price of the concert fee.

The two first options would increase the income of the band/artist. This because tax-free income would stay the same as in VAT exempted income, but the costs would decrease by 10%-24% with the VAT deduction possibility. For VAT registered companies the VAT implementation would not increase the tax-free price of the concert fee. For VAT exempted societies the VAT implementation would increase the final price if VAT is added on the current VAT exempted price. However, in option 3 the income of the band/artist/(agent) would stay the same compared to the VAT exempted scenario. But because of VAT deduction possibility the tax-free minimum price would decrease and in some cases also decrease the VAT included price. All these will be more closely explained in the upcoming sections.

As the VAT implementation on live music could be used to decrease the tax-free minimum price of the concert fee, also entrance tickets that already have a VAT percentage of 10 percent (except if you are a VAT exempted non-profit society) could decrease.

The amount that can be reduced from the VAT exempted minimum price, if VAT is implemented, depends on ***how much the VAT exempted price consists of VAT included costs***. The affect doesn't directly differ on how high or low your concert fee is. The bigger the percent of costs is from the VAT exempted concert fee, the bigger the reduction percent is from which one can calculate the new minimum prices. Both tax-free and VAT included minimum prices.

It is good to understand, that the ***excess input VAT*** paid becomes earnings, and can therefore be calculated into the tax-free income calculations. However, ***excess output VAT*** is always paid to the treasury.

Tax-free income = (VAT included concert fee) – (total VAT include costs) + (excess input VAT)

Excess output VAT or excess input VAT = VAT output – VAT input

To break even, when no excess input VAT is paid or refunded the amount of input VAT has to be the same as output VAT. See APPENDIX I, part "VAT Break-even". In my example, when the output and input VAT break-even, the minimum tax-free income increases by 10% and the tax-free minimum price can be reduced by 4%.

If VAT would be implemented the minimum price talked about would mainly be tax-free. In TABLE 2 I will try to demonstrate how this would affect the tax-free prices and also VAT included prices.

TABLE 2 is based on APPENDIX 1, which consists of calculations where same costs are compared to different amounts of VAT exempted income and VAT implemented income. In the example in APPENDIX 1 the income is the concert fee. The costs are for groups that have mid/high fixed costs (i.e. Hotels etc.) and also some "show" costs (ex. lights and other technical equipment). It should be understood, that usually all bands and artists have very similar fixed costs, as the groups sizes are very similar no matter how famous the band/artist is. The increased "fame factor" usually increases the income but the costs don't increase simultaneously. TABLE 2 demonstrates this phenomenon.

The TABLE 2 gives an approximate result on how the VAT implementation would affect the prices. The result varies depending on the fixed agent fee percentage, which can be anything between 1%-99%. The agent fee is negotiated between the agent and the band/artist. In APPENDIX 1 I have used on the first row an agent fee by 15% of the VAT exempted concert fee, which is the most common agent fee percentage used in the live music business field in Finland. Except for the last two examples where the agent fees are 5 percent and 0 percent. On the second row a fixed agent fee similar to row 1 is used, to show how the VAT implementation can decrease the tax-free minimum price without changing the incomes of the agent and the band.

The example A in appendix I, uses the following percentages:
Row 1. Agent fee: 15 %
Row 2. Fixed Agent fee, similar to row 1.

The example B, in appendix I uses the following percentages: Agent fee: 5 %
Row 1. Agent fee: 5%
Row 2. Fixed Agent fee, similar to row 1.

The example C, in appendix I uses the following percentages: Agent fee: 0 %
Row 1. Agent fee: 0 %
Row 2. Fixed Agent fee, similar to row 1.

The agent fee percentage determines the lowest percentage of what the total cost can be from the concert fee. In example A, in appendix 1, the agent fee on the first row is 15 percent and therefore the lowest result for total cost from VAT exempted concert fee is 15 percent. In example B, in APPENDIX 1 the lowest possible total cost from VAT exempted concert fee is the agent fee 5 percent and in example C it is 0 percent. The result also depends on the amount of costs with VAT 10 percent (hotels and food) and VAT 24 percent. The result also vary according to the total sum of output VAT compared to input VAT, which changes as well according to the agent fee, that subsequently changes according to the concert fee.

TABLE 2 below demonstrates:
1. How big percentage the VAT included costs are from the current VAT exempted price.
2. The percentage that the tax-free minimum price can be reduced from the current VAT exempted prices, if VAT is implemented on live music fees.
3. The percentage that the tax-free entrance ticket prices can be reduced, if VAT is implemented on live music. As entrance tickets at the moment, already have VAT 10 percent added on their prices if sold by a VAT registered company.

4. The percentage that the VAT included final consumer price would increase or decrease if VAT is implemented on live music fees. The final consumer can be a VAT exempted non-profit society or a private person that hires the band/artist to his/her party, for example to a wedding.
5. The percentage that the VAT implementation and possible reduction of minimum price would affect the agents tax-free income compared to the VAT exempted concert fee.
6. The percentage that the VAT implementation and possible reduction of minimum price would affect the band/artist tax-free income compared to the VAT exempted concert fee.

TABLE 2. The possible affect of VAT implementation on live music fees (See APPENDIX 1)

1. TOTAL % OF COSTS	2. TAX-FREE CONCERT FEE REDUCTION	3. TAX-FREE TICKET PRICE REDUCTION	4. VAT INCLUDED PRICE REDUCTION(-) /INCREASE(+)	5. CHANGE IN THE INCOME OF THE BAND/ARTIST	6. CHANGE IN THE INCOME OF THE AGENT
90 %	-13,14 %	-13,14 %	-3,40 %	0 %	0 %
80 %	-11,16 %	-11,16 %	-1,60 %	0 %	0 %
70 %	-9,80 %	-9,80 %	0,20 %	0 %	0 %
60 %	-8,00 %	-8,00 %	2,00 %	0 %	0 %
50 %	-6,20 %	-6,20 %	3,80 %	0 %	0 %
40 %	-4,50 %	-4,50 %	5,50 %	0 %	0 %
30 %	-2,70 %	-2,70 %	7,30 %	0 %	0 %
20 %	-0,90 %	-0,90 %	9,10 %	0 %	0 %
10 %	-0,80 %	-0,80 %	9,20 %	0 %	0 %
5 %	-0,80 %	-0,80 %	9,20 %	0 %	0 %

APPENDIX 1 explains TABLE 2 in more detail where the costs are presented.

TABLE 2 shows that especially bands and artists that have costs that currently take up more than 70 percent from their VAT exempted concert fee could decrease both their tax-free prices and also VAT included prices without reducing their tax-free income. Those groups that have costs up to 70 percent or less could only decrease their tax-free minimum price. As column 3 shows all scenarios could also decrease the current entrance ticket prices as they already include 10 percent of VAT.

For VAT exempted buyers (i.e. non-profit societies) that are not VAT registered or private persons the VAT included final price of the concert fee would start to increase when the bands cost are approximately 70 percent or less from the VAT exempted concert fee. However, the VAT included final price could increase by a maximum of 10 percent (the VAT rate implemented) compared to the VAT exempted price, but only if the band hired would have zero costs and therefore would implement the VAT rate above the current VAT exempted concert fee. However, zero costs are most unlikely, as all artists and bands have some costs, which I will go through in the next section.

In the following sections I will mostly use the same example, with same prices as earlier, to clearly demonstrate the possible affect of VAT implementation. However, TABLE 2 that includes several options on incomes and costs will also be included in all the conclusions made.

8.3.2 Artists, Bands, Musicians, Troubadours and DJs

Bands and solo artist touring with bands usually have the highest fixed costs. A professional / semi-professional group usually consists in minimum of 7 people: singer, drummer, guitar, bass and keyboard players, light and sound engineers. With fixed cost I mean for example transportation - the bigger the group is and the more equipment needed, the bigger is the vehicle needed. The same goes with the accommodation, food and etc. It is also good to understand that a touring professional band/artist change their act, i.e. the show at least once a year. This means for example new technical equipment. The equipment needed also change according to the place preformed at and therefore touring bands and artists seldom buy their own equipment, as it is not considered profitable.

As both examples 2 and 3 show that the implementation of VAT would greatly benefit groups that have costs totaling to as much as 70 percent of the total concert fee. The less the costs are - the less VAT deduction will benefit the artist/band. However, the possibility to deduct VAT would lower the absolute tax-free minimum price of a show as demonstrated in TABLE 2, which could mean more possibilities and venues to perform at.

The tax-free minimum price means that the tax-free income of a band or an agent would not change, compared to the income they would have received from the current VAT exempted concert fee. The minimum price is a tax-free price for most buyers, but for private persons and non-profit societies that can’t deduct VAT, the minimum price includes the tax in the final price. These cases will also partly be analyzed below, but more in detail in section 8.3.5.

Below I will demonstrate the idea behind decreased minimum price using our example band. In the example I'll use the same costs as in the earlier examples to better understand the impact on VAT implementation. For more calculations and examples see APPENDIX 1, and compare the results in TABLE 2. For the band members I will calculate a fixed income of 160€/member that is the minimum wage of a musician on a Saturday night, according to the Finnish Musicians' union. However, the Finnish Musicians' union only represents those acting via tax-card and therefore these minimum wages are only guiding, when talking about fees for the freelancer musicians acting as entrepreneurs.

Example 4.

In this example I'll demonstrate what the minimum price of The Band is to get break even, when they cannot benefit from the VAT deductions.

The Band cost:
Technical equipment rent: 600€ + 144€ (VAT 24%) ≈ 744€
Bus rental: 200€ + 48€ (VAT 24%) ≈ 248€
Fuel: 50€ + 12€ (VAT 24%) ≈ 62€
Hotel: 290€ + 29€ (VAT 10%) ≈ 319€
Technical crew (sound): 236€ + 57€ (VAT 24%) ≈ 293€
Technical crew (lights): 236€ + 57€ (VAT 24%) ≈ 293€
The Band (5 members): 160€ x 5 ≈ 800€
Costs: 2758€
+ Agent fee 18%: 606€ (Agent fees on live music are also VAT exempted)

Minimum concert fee: 3364€

Example 5.

In this example I'll demonstrate what the minimum cost of The Band is when they can make the VAT deductions.
The Band cost:
Technical equipment rent: 600€ + 177€ (VAT 24%) ≈ 744€
Bus rental: 200€ + 48€ (VAT 24%) ≈ 248€

Fuel: 50€ + 12€ (VAT 24%) ≈ 62€

Hotel: 290€ + 29€ (VAT 10%) ≈ 319€

Technical crew (sound): 236€ + 57€ (VAT 24%) ≈ 293€

Technical crew (lights): 236€ + 57€ (VAT 24%) ≈ 293€

The Band (5 members): (160€ x 5) 800€ + 80€ (VAT 10%) ≈ 880€

Tax-free costs: 2412€

+ Agent fee 18%: ≈ 530€ + 53€ (VAT 10%)

Minimum concert fee: 2942€ + 294€ (VAT 10%)

As example 5 show, the minimum price, i.e. minimum tax-free concert fee of The Band would be decreased by 12,5 percent to a client that gets the VAT deduction, without reducing the income of the band as they would get a VAT deduction/refund. For a private person or a non-profit society that are not VAT registered, the minimum price would be 3236€, which still would be a decrease of 4 percent of the minimum price. Even if the agent fee would be the same 605€ as in example 4, the minimum price would be decreased to 3018€, which is a discount of 10 percent from the minimum price in example 4. The impact on Agents will be discussed in more detail in section 8.3.4.

Evens troubadours, DJs and other performing artists, that work single and have very low costs, could still decrease their tax-free prices without decreasing their income by the possibility to deduct even a small amount of VAT. However, in order to calculate an exact percentage of how the VAT implementation would affect the tax-free concert fee, all incurred costs should be included in the calculations. Below I will list some possible costs. The general costs are those that affect usually all performing artists.

General costs for performing artists:

- Transportation (bus, train, taxi)
- Car/bus (rental or owned by the company)
- Technical equipment (lights and sound) (bought or rented)
- Gasoline
- Food
- Accommodation

- Phone costs (phone and phone calls)
- Computer
- Accounting
- Insurances
- Office equipment (stamps, envelopes, pens, etc.)

Bands

- Musicians
- Technicians
- Work outfits

Troubadours

- Instruments (+ their maintenance)

DJs

- Music purchased
- DJ-licenses / year
- Headphones

At this stage it is good to remember, that when a product or service is VAT exempted, the supplier can't deduct any input VAT. If, the supplier have both VAT exempted products and products subject to VAT, the VAT deduction is possible only on the input VAT that is linked to the service subject to VAT. If however, the use of the VAT regulated service or product in supporting the VAT exempted service, the whole supply chain becomes "VAT exempted" - or vice versa. (Rosenqvist 2014.) I will demonstrate this below.

Example

A troubadour buys an audio system that costs 2000€ + 480€ (VAT 24%) = 2480€. If he uses it only for his performances the audio system costs him 2480€, because he don't get VAT deductions. However, if he uses the audio system mostly in his own shows but also rents the audio system forming 30 percent of his income, he gets 30% of input VAT into deductions and therefore the audio system has cost him 2336€.
When the troubadour invoices the buyer of his show or the renter of the audio system the

bills look like this:

Invoice 1: Performance + audio system: 1000€ (VAT exempted, and no input VAT deduction i.e. for the transportation can be made)

Invoice 2: Rental of audio system: 250€ + VAT 24% = 310€ (input VAT deductions can be made i.e. for the transportation of the audio system)

The VAT rate goes always hand I hand with the main product or service.

8.3.3 Restaurants and Night Clubs

Restaurants in Finland follow a reduced VAT rate of 14 percent, except for the selling of alcohol, which is 24 percent. The entrance tickets are also subject to a reduced VAT rate of 10 percent. This means that restaurants pay input VAT on their investments and purchase, and collect output VAT on their supply of goods and services - for example from the selling of food and drinks. This means that the VAT is only a transit payment for restaurants and nightclubs. Thus, they could deduct the VAT implementation on the live music fee, as shown in example 2 and 3. In example 3 the VAT refund becomes an income or earning, which demonstrates that the VAT payment is only a transit payment. However, restaurants usually also have other input and output VAT than the concert fees, so these examples are not comprehensive descriptions of the whole restaurant business. Below I will still shortly demonstrate this and what happens if the VAT is implemented above the VAT exempted concert fee.

Example 6.

Income:
Entrance tickets: 4000€ + 400€ (VAT 10%) = 4400€
Alcohol: 2000€ + 480€ (VAT 24%) = 2480€
Total tax-free income: 6000€
Output VAT: 880€
Costs:
Concert fee: 3000€ (VAT exempted)

Rent: 600 + 144€ (VAT 24%) = 744€

Heat: 100€ + 24€ (VAT 24%) = 124€

Water: 50€ + 12€ (VAT 24%) = 62€

Total tax-free costs: 3750€

Input VAT: 180€

Total income: 6000€ – 3750€ = 2250€

Input VAT 180 - Output VAT 880€ = - 700€

The Club gets tax-free income of 2250€ and pays 700€ of excess output VAT to the treasury. Total income 2250€.

Example 7.

Income:

Entrance tickets: 4000€ + 400€ (VAT 10%) = 4400€

Alcohol: 2000€ + 280€ (VAT 24%) = 2480€

Total tax-free income: 6000€

Output VAT: 880€

Costs:

Concert fee: 3000€ + 300€ (VAT 10%) = 3300€

Rent: 600€ + 144€ (VAT 24%) = 744€

Heat: 100€ + 24€ (VAT 24%) = 124€

Water: 50€ + 12€ (VAT 24%) = 62€

Total tax-free costs: 3750€

Input VAT: 480€

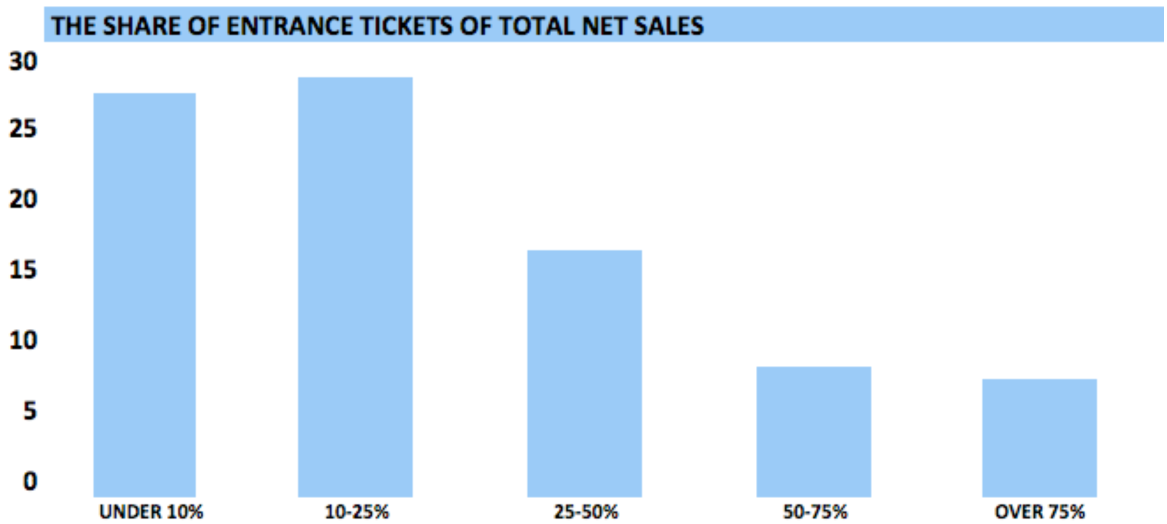
Total tax-free income: 6000 – 3750€ = 2250€

Input VAT 480€ - Output VAT 880€ = - 440€

The Club gets tax-free income of 2250€ and pays 440€ excess output VAT, instead of 700€ as in example 6, to the treasury. Total income 2250€.

As the examples show, with VAT implementation on live music the restaurant would pay less VAT to the treasury but the income would stay the same.

Another positive effect would be, that by implementing VAT, as explained in example 4 and 5 in the earlier section, the tax-free minimum price of a concert fee would reduce as demonstrated in TABLE 2. Reduced tax-free minimum prices, could lead to reduced entrance tickets that could increase the amount of paying customers. The restaurant could also use the reduced tax-free minimum price to increase their revenue, by keeping the entrance tickets at a same level as when paying the higher VAT exempted price on live music. However, GRAPH 4 shows that the entrance tickets are only a fraction of the venues' income. Most of their income is formed from other sales within the restaurant, i.e. alcohol.



GRAPH 4. The share of the entrance tickets of total net sales (VAKAn loppuraportti 2011)

When looking at GRAPH 3 and GRAPH 4 we can conclude, that by a reduced entrance ticket, the venue could attract more customers and by this increase their total net income.

One less positive financial impact for restaurants and Night Clubs if VAT is implemented on live music would be the fact that the payer should have the liquidity to also pay the input VAT at the time of the payment. However, this input VAT would be paid back to the restaurants as a VAT refund/deduction in case they are VAT registered. All restaurants and Night Clubs in Finland may be VAT registered, but if their revenue is 8500€ or more they have to be VAT registered, as per the law (Arvonlisäverolaki).

Entertainment on cruise ships between member states will remain VAT exempted according to the VAT directive Article 140 (a). The tax is determined based on the departure harbor. For example, when the ship departs from Helsinki, the tax on live music is based on the Finnish VAT rate. Consequently, as the return voyage to Helsinki departs from Estonia, the VAT rate will follow the Estonian VAT rate.

8.3.4 Booking Agency and Agents

Booking agencies employ around 200 persons in Finland (VAKAn loppuraportti 2011). If VAT would be implemented on live music it would probably also mean that services of Booking agencies and agents would become VAT obligated as well. The commission rate would be calculated on the tax-free amount and on this sum VAT would then be implemented.

Concert fee: 3000€ + 300€ (VAT 10€) ≈ 3300€
Agent fee: 18%: 540€ + 54€ (VAT 10%) ≈ 594€

Booking agencies and agents would benefit from the VAT implementation in the same way as bands, artist and musicians. They would get all paid input VAT, that are linked to their economic activity, such as office equipment, utilities (heat, water, electricity) and long-term investments etc. into VAT deductions.

However, if the agencies would remain VAT exempted nothing would directly change in their way of doing business and their income.

Concert fee: 3000€ + VAT 10% ≈ 3300€
Agent fee: 18%: 540€ (VAT exempted)

As demonstrated in TABLE 2 and explained in examples 4 and 5, the tax-free minimum price could be reduced by VAT implementation - without reducing the income of the agent or the band. By VAT implementation and the tax-free price reduction according to TABLE 2 a recheck on the agent fee percentage should be made. This to ensure that agent would get the same tax-free income as from the VAT exempted concert fee price.

However, once again the reduced tax-free minimum price could lead to increased business, as lowered prices usually increase consumption. More business usually means higher income and a better financial situation.

8.3.5 Non-profit Societies

Non-profit societies are exempted from VAT as long as they aren't involved in any economic activity. However, non-profit societies have the possibility to register themselves into the VAT system if they have some activities that can be seen as economic activity and if they choose to do so. Below I will demonstrate why they should do to this, especially if VAT would be implemented on live music. In the examples I have once again listed only some of the main costs and used our earlier example prices. Again, TABLE 2 demonstrates more on how VAT implementation would affect live music buyers and those that are VAT exempted and/or not VAT registered.

Example 8.

This is an example of the current situation where non-profit societies and live music are exempted from VAT. I will use the minimum price of the concert fee presented in example 4.

Income:
Ticket sale: 4000€
Costs:
Heat: 100€ + 24€ (VAT 24%) ≈ 124€
Water: 50€ +12€ (VAT 24%) ≈ 62€
Real estate rent: 100€ (in real estate the VAT is exempted when rented to a VAT exempted renter, thus in this case to a non-profit society)
Alcohol: 200€ + 48€ (VAT 24%) ≈ 248€
Concert fee: 3364€
Total cost as the Non-profit society doesn't get VAT deductions is 3898€
Ticket sale 4000€ - cots 3898€ ≈ 102€
The total income for Non-profit society is 102€.

Below I want to demonstrate how these non-profit societies could benefit from being VAT registered.

Example 9.

This example shows what will happen if VAT 10% is implemented on the live music price and the non-profit society is not VAT registered. I'll use the same prices as in the previous example. However, as the band would now get VAT deductions I will use the reduced minimum price concert fee, as explained in section 8.3.1-2 and I will use the reduced tax-free minimum price presented in example 5.

Income:
Ticket sale: 4000€ (400pcs x 10€)
Costs:
Heat: 100€ + 24€ (VAT 24%) ≈ 124€
Water: 50€ + 12€ (VAT 24%) ≈ 62€
Real estate rent: 100€ (again in real estate the VAT in exempted when rented to a VAT exempted renter, thus in this case to a non-profit society)
Alcohol: 200€ + 48€ (VAT 24%) ≈ 248€
Concert fee: 2942€ + 294€ (VAT 10%) ≈ 3236€
Total cost as the non-profit society don't get VAT deductions is € 3770€
Ticket sale 4000€ - costs 3770€ ≈ 230€

The total income for Non-profit society is 230€.

Example 10.

This example shows what will happen if VAT 10% is implemented on the live music price and the non-profit society is VAT registered. The same prices are used as in the earlier example. I will also keep the ticket price at the same level, as in example 7.

Income:
Ticket sale: 3636€ + 363€ (VAT 10%) ≈ 4000€ (400pcs x 10€ (include VAT 10%))
Costs:
Heat: 100€ + 24€ (VAT 24%) ≈ 124€

Water: 50€ + 12€ (VAT 24%) ≈ 62€

Real estate rent: 100€ + 24€ (VAT 24%) ≈ 124€

Alcohol: 200€ + 48€ (VAT 24%) ≈ 248€

Concert fee: 2942€ + 294€ (VAT 10%) ≈ 3236€

VAT included income – VAT included costs = 205€

Total tax-free cost as the Non-profit society gets VAT deductions is 3392€

Tax-free ticket sale 3636€ - tax-free costs 3392€ ≈ 244€

Input VAT 402€ - output VAT 363€ ≈ 39€

The Non-profit society gets 205€ plus the excess input VAT of 39€ that the treasury pays back to the non-profit society. Total tax-free income 244€.

In example 9, the VAT implementation on live music would increase the income of the non-profit society. This because the minimum price of concert fee could be reduced. Compared to example 8, it would double the revenue even though they would not be VAT registered and not get the input VAT into deduction. By VAT implementation and VAT deduction possibility the band could decrease their tax-free concert fee as explained in section 8.3.1-2 and demonstrated in TABLE 2. As the band in our example has high costs, the reduction percent of the tax-free price is also high, without decreasing the income of the band. TABLE 2 also demonstrates that for a non-profit society that is VAT exempted and not VAT registered, the VAT implementation on concert fees will become a burden, when the bands total costs are around 70% or less.

Example 10 shows, that the VAT deduction possibility for a non-profit society would also be beneficial as example 9. Even if the VAT implemented ticket prices for consumers would stay the same the income of the non-profit society would increase by more than double from example 8.

However, in the end a VAT registered non-profit society may deduct input VAT from all their purchases linked to their economic activity, which could in the end lead to even bigger income increase.

For VAT registered facilities and societies the VAT implementation on live music should only be seen as a transit payment as example 10 demonstrates. The refunded excess input VAT becomes an earning, and this could be very beneficial for the non-profit societies, especially for those with high costs. Once again, the only “negative” financial impact would be the same as for restaurants at the time of payment as the payer should have money to pay the input VAT, which they however later can deduct from their output VAT or get it back as a refund.

Non-profit societies should always keep record of their activities, even if there not VAT registered and therefore the bureaucracy would not increase by VAT implementation.
Non-profit societies owned and ran by the state are analyzed in section 8.3.9, Government / National economy.

8.3.6 Other Companies

When the buyer of the live music is a VAT registered Company, which is not a club or a restaurant, but let us say - a chemical company, the VAT deduction rights are limited. It depends on the economic activity / situation where the live music is preformed at.

If the occasion is open for the public, seen as marketing or negotiation occasion, or an internal conference and a feast - then yes, VAT is deductible as in examples 2 and 3.

If however the happening is a closed occasion and restricted for a limited number of people, it is considered to be a representative occasion and then the VAT is not deductible according to the Finnish VAT legislation article 114, paragraph 3. A representative occasion is when the company shows hospitality to business associates or to existing and possible new customers (Edustusmenot 2011). In the case that the company buys the show for representative use, the VAT is not deductible and the company pays the VAT percentage like any other buyers.

In representative occasions it is again good to remember that the VAT implementation on live music could even lower the VAT included minimum price as demonstrated in TABLE 2, explained in APPENDIX 1 and examples 4-5.

8.3.7 Equipment sellers / leasers and crew

Equipment sellers and leasers are already exposed to VAT by law. If VAT would be implemented on live music fees, the price on equipment and crew would reduce by 24 percent to the artist and bands. The price reduction would benefit the technical crew, the technical equipment and car/bus seller/leasers as reduced price usually increases the customer consumption.

Example 11.
This example is only to demonstrate how the renting of technical equipment is more expensive to VAT exempted businesses, and let us simplify and state that the only costs and income is the sum of the technical equipment. This example shows how double taxation occurs is these cases.

Technical equipment: 500€ + 120€ (VAT 24%) ≈ 620€

The band pays 620€ because they can't benefit from the VAT deduction and therefore includes it in the total cost of their final price, which the buyer, thus restaurant/club in the end pays.

Concert fee: 620€ (VAT exempted)
The club that has a capacity of 50 people will be sold-out, and for the club to break even the tickets cost have to be set as (620€/50) + VAT 10% ≈ 13€

The club then gets 620€ and pays 65€ VAT to the treasury.

The technical equipment supplier pays VAT 120€ to the treasury and ends up with a total of 500€.

The output VAT has now been paid twice: output VAT 120€ by the technical equipment supplier and output VAT of 65€ by the club. The treasury got a total of 186€

Example 12.

This example shows the same supply chain as above, but in this case the live music would include VAT.

Technical equipment: 500€ + 120€ (VAT 24%) ≈ 620€
The bands cost is 500€ as they can benefit of the VAT deduction.

Concert fee: 500€ + 50€ (VAT 10%) ≈ 550€

The club that has a capacity of 50 people will be sold-out, and for the club to break even the ticket cost have to be set as (500€/50) + VAT 10% ≈ 11€

The club gets a tax-free sum of 500€. Input and output VAT cancel each other out.

Technical equipment supplier pays VAT 120€ to the treasury and ends up with a total of 500€. The total amount of VAT paid to the treasury is 120€.

As examples 11 and 12 show, implementation of VAT on live music would not only abolish the double taxation. It could also reduce the concert fee, as also explained in TABLE 2 and more closely in APPENIDX 1. The reduce concert fee could then also lower the price of the entrance tickets and therefore benefit the final consumer in the end. This will be explained in detail in the following section.

8.3.8 Consumers

The consumer prices on tickets bought to music concerts already include a VAT of 10%, except if the organizer is a non-profit society with no VAT obligations or a company with a revenue of 8500€ or less that has not VAT registered themselves.

As already explained earlier, the VAT exemption doesn’t really mean VAT free since the input VAT is calculated into the final price. Examples 11 and 12 show, how VAT implementation on live music fees could lower the price of the entrance tickets with as much as ≈ 15 percent, i.e. 11€ versus 13€.

Examples 4 and 5 show how the VAT implementation would lower the tax-free minimum price of a concert fee without reducing the income of the band or the agent, compared to the VAT exempted income scenario.

TABLE 2 shows that the decrease in the tax-free minimum price would subsequently mean that the tax-free price on an entrance ticket could also decrease by the same percentage, except if the organizer is a VAT exempted non-profit society as explained in section 8.3.5.

However, by looking at TABLE 2 we can also conclude that even a VAT exempted non-profit society could possibly reduce their ticket prices, without reducing their income. This depends on the VAT included costs that the band/artist have.

8.3.9 Government / National economy

The government and all its institutions are mostly seen as non-profit societies. However, they differ from other non-profit societies in the way that they can benefit from input VAT deductions according to Finnish VAT legislation article 130. This means that the VAT implementation would not increase the final costs, when for example the city orchestra would compensate a musician that is considered to be a taxable person. The input VAT would once again be a transit payment.

The VAT implementation wouldn't directly affect the state in any other way. Even though the double taxation on input VAT would be demolished, the state would still get output VAT payments through out the supply-chain. Furthermore, the excess input VAT would again become earnings, and the state would be paid income tax.

The possibilities to re-use and invest the refunded VAT would help the taxable entity to grow as an enterprise. As the financial situation would be stronger, more people could be employed, which obviously would decrease the unemployment numbers and increase income tax. This is especially important, as technical crew used in live music are VAT obligated by law and makes their fee very high to the band/artist to employ. More investments could be done, which consequently would benefit the state in the form of gather output VAT from suppliers and income tax from the suppliers.

Even more, the VAT implementation on live music could keep the tax-paying subcontractors for live music in Finland. A growing trend in 2014 has been that Finnish companies have moved their business to countries like Estonia that has a VAT percentage of 20 percent. This because the VAT rate of 20 percent reduces the VAT included final price for VAT exempted buyers by 4 percent.

The general impact of live music events, especially the big ones, have been considered to have a big positive effects on the regional economy as there is an increase of the use of local services such as hotels, restaurants, transportation etc. (Sirppiniemi 2014). Live music events also employ people, and by implementing VAT on live music the reduction on minimum prices, as explained in section 8.3.1-2, could result in new employment opportunities, as the economy would grow.

9 FINAL CONCLUSION

The purpose of this study was to study the effects of VAT implementation on live music in Finland. The purpose was to analyze using qualitative and quantitative research the impacts on all different components in the supply chain of live music if a VAT reform would be put into practice.

Live music is a big part of a musician's income. If the music education is excluded from the calculation, live music represents up to 71% of the total value of music business overall in Finland (Tolppanen 2012, 14). However, one reason for a high number is that a lot of bands and artist don't have any other income than live music. Only a small part of Finnish artists and bands make their partial living from copyrights and royalties. This is an important reason why live music should be supported a kept alive.

There are several groups of different sizes touring around in Finland playing live music. The size of the groups differ from 1 person, such as DJs to big bands with a group of 20 persons, including the band, artist, crew and eventually a merchandise sales person.

The VAT implementation would mostly concern those bands, artist, DJ's and other musicians with a status of a taxable person. Those who work directly under the buyer by a tax card cannot add or deduct any VAT in their fees. As a consequence nothing will change in their way of doing business. However, if a band has an agent as an employer, and their salary is paid after the costs are deducted, they can most likely see an increase in their income. This is either by increased net income per show, or an increase in the total net income as an outcome of the increased number of shows. The bigger the costs are compared to the concert fee, the bigger the benefit of the implementation of VAT is.

No standard prices are stated for live music. The prices vary generally according to the "fame-factor". The more famous you are, the bigger your fee can be. Other important factors in determining the final prices are the size of the venue and the size of the group. The bigger the group is, the higher is the maintenance cost of the group, such as food, hotels, transport, etc. The final price also depends on the equipment that needs to be rented for the act. Some venues have fixed PA systems, which may lower the fee paid to the performing artist/band. It is worth mentioning that professional bands and artist touring are a bit like a circus. They have a different show each year, i.e. new songs and new equipment, new lights and other requisites that usually are rented - as buying all technical equipment for a years show is not very cost efficient. This keeps the equipment leasers and employed.

DJs and one-man troubadour shows are usually very cost efficient as they have low costs, as they don't have employees, such as musicians and technicians. Small groups have in general very high revenues, compared to individuals in bigger groups.

However, even if they don't have high touring costs they do have some fixed cost as well: DJs have license payments, if they don't perform their own music, music purchased, accommodation and travel costs for one person, equipment and bureaucracy costs from running the business etc. If VAT would be implemented, they could deduct the VAT of these inputs from their output VAT as in example 2 and 3. This could lead to a decrease in their tax-free minimum price (concert fee), without it affecting their income.

Examples 1, 2 and 3 show how a band with high costs, can increase their income with 40 percent just by using the tax deduction possibility through paying their input VAT.

Not only could the VAT implementation increase the income of bands and artists by exploiting the VAT deductions/refunds, it could also add the number of venues to perform at, by lowering the minimum price of a show. Many smaller restaurants can't afford to hire groups that have high fixed cost. TABLE 2 demonstrates that VAT implementation would decrease the tax-free minimum price in all scenarios, except if the band/artist don't have any costs, which is almost impossible if running a business.

Example 5 shows how the minimum price of the band in our example would be reduced by 12,5 percent without lowering the income of the band. Despite low VAT included costs, a reduction on the tax-free price is possible. A 0,1-2 percent reduction may sound as an insignificant number, but a saving of 200€ from a concert fee of 10.000€ is however not insignificant, which according to the Labor Union of Sales represents the workload of 2 persons for 7,5 hours.

Most bands and artist that tours have booking agencies/agents that book them for restaurants and other buyers. The lowering of the minimum price would increase the number of possible buyers and by this consequently also increase the income of the agents and booking agencies. The implementation of VAT would also clarify their business, both bureaucracy and practice wise, as many booking agencies also organize concerts, which always are VAT liable.

More over, record label companies and booking agencies are starting to emerge, and by making all economic activities VAT liable, the business would become clearer to all parties.

Nowadays most live music buyers are VAT registered. In 2014 Teosto roughly estimated that in year 2013, 61 percent of live shows were organized by companies. Only 13 percent were organized by non-profit societies (including both VAT registered societies and not VAT registered societies), 11 percent by municipalities, 5 percent by parishes and the remaining 10% by “others” (Sirppiniemi 2014).

From this we can conclude that the implementation of VAT would not actually change the sales price of the show for most of the buyers, even if the VAT would be added on the VAT exempted price, as they are taxable entities by law. This means that the buyer gets the added input VAT back from the treasury or deducted from the output VAT, which comes from ticket and other sale.

If the buyer is not a taxable person, but for example is a non-profit society or a private person, the added VAT on the VAT exempted price would be a burden to them, as they would be considered as a final consumer. This is how the value added tax system is supposed to work. However, as explained in section 8.3.1 and TABLE 2, the VAT included final price could also be reduced even for private persons and non-profit societies, especially if the band has high costs that include VAT.

And let’s be honest, many artists, bands, DJs and troubadours that perform for example at a private wedding, are usually paid “under the table”. Some may argue that this problem would grow if VAT would be implemented on concert fees. However, VAT exempted concert fees doesn’t in theory or in practice mean tax-free. The input VAT is already a burden in the final concert fees, as bands and artists don't get the VAT deductions. I will argue that that gray economy would decrease, as the deduction possibility of VAT would increase the income, together with possible VAT refunds. And as these VAT refunds and deductions are only possible when input and output VATs' are submitted into the VAT system, the gray economy would most probably be reduced.

Live music and restaurants / Night Clubs are the most important associations in the supply chain, as live music needs facilities to perform at and Restaurants / Night Club needs live music to attract customers and also to stay open until or after 02:30/03:30 (Valvira 2002). In Finland there are approximately 1100 venues that use music entertainment in order to stay open until 03:30 (Lappi 2012). Most of these employ especially DJs.

Other buyers are the non-profit societies, such as dance-places, live music societies – "ELMU", as many of them are called in Finland - and also concert halls and other institutions owned by the state.

As explained earlier, when VAT was implemented in Finland in 1994 most of the live music buyers were "dance places" run by non-profit societies that all were then exempted from VAT by law. It was thought that by not implementing VAT in live music it would have a positive impact on these societies and help them money and bureaucracy vice to run their operations, which would then again help the artists and bands.

In 2013 Laaksonen and Music Finland made a research/survey on dancing places, which shows that in year 2013 only around 173 dancing-places, were still running (Laaksonen 2013, 5). This is a very small part of the overall live music buyers. Comparing them to the 8700 places and restaurants that offer live music that reported to Teosto in 2013 (Sirppiniemi 2014), dancing places represents only 2 percent of this amount.

The survey also tells us that 91% of the remaining dancing place societies think that the price of attractive bands and artist are a high threat to the existence of the facilities (Laaksonen 2013, 8). This shows and proves the inefficiency of the practice where some goods and services are exempted from VAT, if the whole supply chain isn't exempted from VAT. This means that, even if the concert fee itself is VAT exempted, the artist/band/musician have to implement the input VAT derived from their expenses into their final price, as they cannot get it deducted. This means that the price still includes VAT and double tax is paid as explained in section 5.2.

The input VAT items that bands and artist have to take into consideration when they set their final price of their act are the technical crew and equipment, bus/car rental and fuel, accommodation and food. All these costs have output VAT in their prices that musicians cannot deduct because of the VAT legislation in Finland. This is not only a burden to the artists and bands, but also to all the suppliers of the equipment. As the artists and bands cannot get their input VAT deducted, the price is always 24 percent higher to them compared to other buyers - for example restaurants and clubs. This part of the supply chain is a good example of the double taxes paid, as shown in examples 11 and 12. Even though the value added principle was implemented to eliminate these kinds of situations.

There is an injustice that makes this double tax paid even more irrational. If a restaurant organizing a concert would directly buy the technical equipment from the same supplier as the band/artist, the restaurant would get the input VAT deducted. Just because of this unfairness the VAT should be implemented into live music business, so that band and artist could act with the same rights and obligations as other entrepreneurs.

According to the same research made of dancing places 17 percent of the places whishes that live music would become VAT obligated (Laaksonen 2013, 10). From this outcome I can draw the conclusion that these places have already registered themselves into the VAT register. Also when looking at the Finnish company records, most of the bigger live music “ELMU” societies have already registered themselves as VAT liable. These societies sign bands and artist several times per month. Those “ELMU”s’ that aren’t VAT registered are more or less small societies that don’t mainly buy music. They organize concerts and other educational events that offer a possibility for beginning artist and bands to perform and learn. They are nonprofit societies in its actual meaning.

Non-profit societies become VAT obligated if they have any economic activity as for example real estate rental or/and catering (Arvonlisäverotus 2013). The Finnish VAT legislation also allows non-profit societies to register themselves into the VAT register even if they don’t have taxable income but they have business that can be seen as economic activity, such as organizing live music concerts.

The research on dancing places also tells us that 73% of the places have the right to serve alcohol (Laaksonen 2013, 7). In Finland the alcohol VAT rate is the same 24% as it is in all other costs, such as heat, water, real estate rental etc. The societies would therefore easily benefit from the VAT deductions, as the ticket output VAT rate is 10%.

Often the non-profit societies also arrange music events in clubs and restaurants. When doing this the formal organizer may still be the restaurant, which is VAT registered by law and gets the VAT deductions. In this case the non-profit society only works as an agent and the VAT implementation doesn't directly concern them. If however, the non-profit society is the formal organizer, then we can look at examples 8, 9 and 10 and again conclude that the non-profit society could benefit from being VAT registered, as they would get VAT deductions and through this increase their revenue.

The implementation of VAT wouldn't only make a potential increase in the income of performing artist, but it could even solve the problem of "too high prices" that the research reports (Laaksonen 2013, 8). As explained earlier, the VAT implementation would mean that the tax-free minimum price of a band/artist would go down, as they could get the input VAT deducted.

However, many of the non-profit societies have raised their voice on their concern that by registering themselves into the VAT register the bureaucracies with the book keeping would increase and by this also the bureaucracy costs. This sounds more like an excuse, as non-profit societies always have to keep accounting records of their business anyway.

Still, one possible option could be that the rule for VAT exemption in real estate business could be implemented in live music. This would mean that when a live music show would be sold to a VAT registered buyer, the VAT would be implemented on the concert fee. On the other hand, if the buyer would be a non-profit society that is not VAT registered, the VAT would not be implemented on the concert fee. (Arvonlisäverolaki, 27(1).)

Another option would be to implement zero VAT rate on live music. This would mean that the concert fee would be VAT 0 percent, which would mean that the bands and artists could still make input VAT deductions, even though they don't have output VAT on their income.

However, it is very important to remember that there are no actual fixed prices on concert fees and it is still to be negotiated between the buyers and the sellers. A mutual understanding should be found.

The VAT percentage of 10 percent on live music would be in line of the VAT rate of entrance tickets. It would also be comparable to other entertainment and experiences offered that also are rated to VAT 10 percent, for example outdoor safaris. Live music is entertainment, but even more it is an experience built especially for the customer.

Not only would the VAT implementation remove the double taxation, but it would also stimulate the professional live music business at large and revive the whole supply chain and even make a difference when talking about the whole national economy.

An investigation made by Tampere and Helsinki Universities show that big live music events may have a huge positive impact on the regional economy. They made a research on how money was spent during "Tango-markkinat" and "Provinssi-rock". The results of the investigation showed that for every invested euro into Tango-markkinat, the town gained 6,1 euros more and for Provinssi-rock the town gained 1 euro more.

In the year 2013, 62.000 live music shows were organized in over 8700 places all around Finland. When thinking about the possible positive effects the live music events have on the use of local services, such as hotels, taxi services etc., we can gain a deeper understanding on how impressing the impact of live music has on the National economy.

As a summary of the final conclusion, as all examples, theory and history show the VAT exemption in live music fees has not helped the live music business nor is it VAT free, as the name might suggest. The VAT directive states already in the beginning that the obligations of taxable entities/persons should be harmonized as far as possible to ensure the collection and application of VAT in a uniform manner in all EU Member States (VAT Directive, (45)). The Member states are also advised to implement measures to implement these aims (VAT Directive, (61)). These measures should, in particular, address the problem of double taxation (VAT Directive, (62)). VAT implementation on live music would be one of these measures.

Based on this thesis a further research should be done on how the VAT implementation would effect on live music in the long run compared to the current VAT exempted situation. Also the Finnish VAT legislation article 45 should be analyzed as a whole - what would happen for the other professions under the same article? Could live music be separated from these or should the whole article 45 in Finnish VAT law be removed and all performing artist and athletes harmonized to VAT obligated professions.

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APPENDIX 1

	VAT INCLUDED CONCERT FEE	1. VAT EXEMPTED 2. TAX-FREE CONCERT FEE	1. AGENT FEE (15%) 2. FIXED AGENT FEE	RENTAL LIGHTS 1. TAX INCLUDED PRICE 2. TAX-FREE PRICE	RENTAL TECHNIC 1. TAX INCLUDED PRICE 2. TAX-FREE PRICE	BOUGHT TECHNIC 1. TAX INCLUDED PRICE 2. TAX-FREE PRICE	BUS 1. TAX INCLUDED PRICE 2. TAX-FREE PRICE	GAS 1. TAX INCLUDED PRICE 2. TAX-FREE PRICE	CREW 1. TAX INCLUDED PRICE 2. TAX-FREE PRICE	HOTEL 1. TAX INCLUDED PRICE 2. TAX-FREE PRICE	TOTAL COST 1. TAX INCLUDED PRICE 2. TAX-FREE PRICE	TAX-FREE INCOME	INPUT VAT	OUTPUT VAT	PAID VAT (+)/REFUNDED VAT (-)	TOTAL PERCENTAGE OF COSTS COMPARED TO VAT EXEMPTED CONCERT FEE	TAX-FREE MINIMUM PRICE REDUCTION IN PERCENTAGES	PERCENTAGE THAT THE FINAL VAT INCLUDED PRICE WOULD INCREAS(+)/DECREASE(-) FROM THE VAT EXEMPTED CONCERT FEE
EXAMPLE A																		
GROUPS WITH MID/HIGH COSTS (EX. BANDS AND ARTISTS)																		
1.		5 159,0€	773,9€	620,0€	558,0€	310,0€	124,0€	620,0€	1 075,1€	561,0€	4 641,9€	**517,1€**				**90,0**		
2.	4 914,8€	4 468,0€	773,9€	500,0€	450,0€	250,0€	100,0€	500,0€	867,0€	510,0€	3 950,9€	**517,1€**	768,5€	446,8€	-321,7€	**88,4**	**13,4**	**-3,4**
1.		5 950,0€	892,5€	620,0€	558,0€	310,0€	124,0€	620,0€	1 075,1€	561,0€	4 760,6€	**1 189,4€**				**80,0**		
2.	5 784,8€	5 258,9€	892,5€	500,0€	450,0€	250,0€	100,0€	500,0€	867,0€	510,0€	4 069,5€	**1 189,4€**	780,3€	525,9€	-254,4€	**77,4**	**11,6**	**-1,6**
1.		7 030,0€	1 054,5€	620,0€	558,0€	310,0€	124,0€	620,0€	1 075,1€	561,0€	4 922,6€	**2 107,4€**				**70,0**		
2.	6 972,8€	6 338,9€	1 054,5€	500,0€	450,0€	250,0€	100,0€	500,0€	867,0€	510,0€	4 231,5€	**2 107,4€**	796,5€	633,9€	-162,6€	**66,8**	**9,8**	**0,2**
1.		8 590,0€	1 288,5€	620,0€	558,0€	310,0€	124,0€	620,0€	1 075,1€	561,0€	5 156,6€	**3 433,4€**				**60,0**		
2.	8 688,8€	7 898,9€	1 288,5€	500,0€	450,0€	250,0€	100,0€	500,0€	867,0€	510,0€	4 465,5€	**3 433,4€**	819,9€	789,9€	-30,0€	**56,5**	**8,0**	**2,0**
1.		11 059,0€	1 658,9€	620,0€	558,0€	310,0€	124,0€	620,0€	1 075,1€	561,0€	5 526,9€	**5 532,1€**				**50,0**		
2.	11 404,8€	10 368,0€	1 658,9€	500,0€	450,0€	250,0€	100,0€	500,0€	867,0€	510,0€	4 835,9€	**5 532,1€**	857,0€	1 036,8€	179,8€	**46,6**	**6,2**	**3,8**
1.		15 500,0€	2 325,0€	620,0€	558,0€	310,0€	124,0€	620,0€	1 075,1€	561,0€	6 193,1€	**9 306,9€**				**40,0**		
2.	16 289,8€	14 808,9€	2 325,0€	500,0€	450,0€	250,0€	100,0€	500,0€	867,0€	510,0€	5 502,0€	**9 306,9€**	923,6€	1 480,9€	557,3€	**37,2**	**4,5**	**5,5**
1.		25 800,0€	3 870,0€	620,0€	558,0€	310,0€	124,0€	620,0€	1 075,1€	561,0€	7 738,1€	**18 061,9€**				**30,0**		
2.	27 619,8€	25 108,9€	3 870,0€	500,0€	450,0€	250,0€	100,0€	500,0€	867,0€	510,0€	7 047,0€	**18 061,9€**	1 078,1€	2 510,9€	1 432,8€	**28,1**	**2,7**	**7,3**
1.		78 000,0€	11 700,0€	620,0€	558,0€	310,0€	124,0€	620,0€	1 075,1€	561,0€	15 568,1€	**62 431,9€**				**20,0**		
2.	85 039,8€	77 308,9€	11 700,0€	500,0€	450,0€	250,0€	100,0€	500,0€	867,0€	510,0€	14 877,0€	**62 431,9€**	1 861,1€	7 730,9€	5 869,8€	**19,2**	**0,9**	**9,1**
EXAMPLE B																		
GROUPS WITH LOW COSTS (EX. DJS AND TROUBADOURS)																		
			AGENT 5%															
1.		1 000,0€	50,0€					35,0€		15,0€	100,0€	**900,0€**				**10,0**		
2.	1 091,1€	991,9€	50,0€					28,2€		13,6€	91,9€	**900,0€**	13,1€	99,2€	86,1€	**9,3**	**0,8**	**9,2**
EXAMPLE C																		
			AGENT 0%															
1.		1 000,0€	0,0€					30,0€		20,0€	50,0€	**950,0€**				**5,0**		
2.	1 091,6€	992,4€	0,0€					24,2€		18,2€	42,4€	**950,0€**	7,6€	99,2€	91,6€	**4,3**	**0,8**	**9,2**
VAT BREAK-EVEN																		
			AGENT 15%															
1.		8 532,0€	1 279,8€	620,0€	558,0€	310,0€	124,0€	620,0€	1 075,1€	561,0€	5 147,9€	**3 384,1€**				**60,3**		
2.	9 010,1€	8 191,0€	1 279,8€	500,0€	450,0€	250,0€	100,0€	500,0€	867,0€	510,0€	4 456,8€	**3 734,2€**	819,1€	819,1€	0,0€	**54,4**	**4,0**	**6,0**

It is good to understand, that the ***excess input VAT*** paid becomes earnings, and can therefore be calculated into the tax-free income calculations. However, ***excess output VAT*** is always paid to the treasury.

Tax-free income = (VAT included concert fee) – (total VAT included costs) + (excess input VAT)

Excess output VAT or excess input VAT = VAT output – VAT input